ANNUAL REPORT **2020**

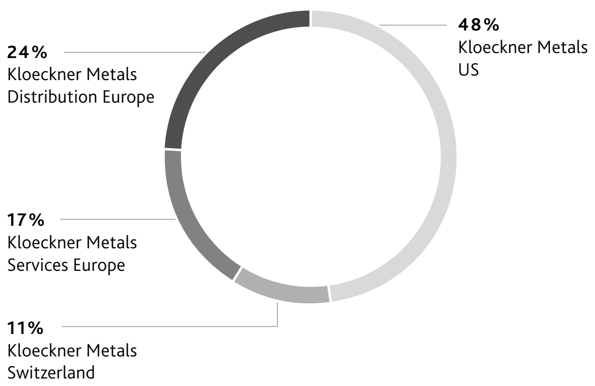
klöckner & co

Key figures
Klöckner & Co SE

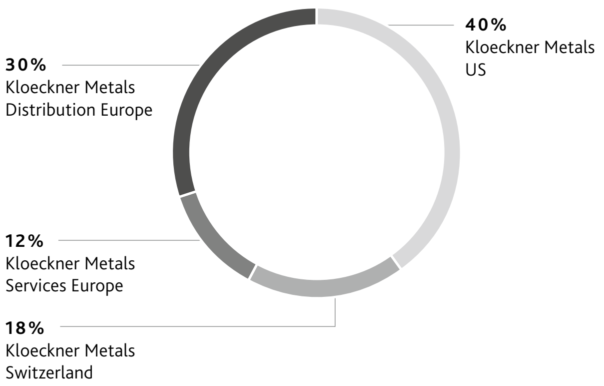
in € million		2020	2019	2018	2017	2016	Change 2020–2019
Shipments	Tto	4,873	5,648	6,107	6,135	6,149	–775
Sales		5,130	6,315	6,790	6,292	5,730	–1,185
EBITDA before material special effects		111	124	229	220	196	–13
EBITDA		52	139	227	220	196	–87
EBIT		–93	2	141	130	85	–95
EBT		–124	–39	107	97	52	–85
Net income		–114	–55	69	102	38	–59
Earnings per share (basic)	€	–1.16	–0.56	0.68	1.01	0.37	–0.60
Earnings per share (diluted)	€	–1.16	–0.56	0.66	0.96	0.37	–0.60
Cash flow from operating activites		161	204	60	79	73	–43
Cash flow from investing activities		–62	3	–59	2	–52	–65
Free cash flow		99	207	1	81	21	–108
Liquid funds		173	183	141	154	134	–10
Net working capital[1]		967	1,119	1,277	1,132	1,120	–152
Net financial debt		351	445	383	330	444	–94
Equity ratio	%	39.9	40.5	41.9	41.7	39.6	–0.6%p
Balance sheet total		2,613	2,916	3,061	2,886	2,897	–303
Employees as of December, 31		7,274	8,253	8,579	8,682	9,064	–979

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

SHIPMENTS



SALES



Content

A compilation of explanations of selected terms used in the Annual Report can be found in the glossary on the Klöckner & Co website at https://www.kloeckner.com/en/glossary.html.

FACTS **2020**

7,274
EMPLOYEES

>100,000
CUSTOMERS

€5,130m
SALES

45%
DIGITAL SALES
AS OF Q4 2020

€111m
EBITDA BEFORE MATERIAL
SPECIAL EFFECTS

4,873Tto
SHIPMENTS

€1,533m
SALES KLOECKNER METALS DISTRIBUTION EUROPE

€2,076m
SALES KLOECKNER METALS US

€607m
SALES KLOECKNER METALS SERVICES EUROPE

€914m
SALES KLOECKNER METALS SWITZERLAND

~140
LOCATIONS

60
MAIN SUPPLIERS

Dear Shareholders,
Ladies and Gentlemen,

Every crisis is also an opportunity. So we at Klöckner & Co do not look back on the development of our Company over the past year with a solely negative perspective. In the spring, we responded quickly and decisively to the impacts of the pandemic caused by COVID-19 by launching the Surtsey project. Surtsey is a volcanic island in the Atlantic. As a child, I was taken along on a trip to the North Cape and passed by the island just after it had formed. Ever since, I have thought of Surtsey as a symbol of renewal, so it was only logical for me to name the last major project I am responsible for as CEO of Klöckner & Co after the island.

Surtsey island, Iceland

Thanks to Surtsey, we have made faster progress toward our goal of turning a rather undifferentiated steel distributor into an industry leader in terms of customer satisfaction, efficiency and sustainability. The key to this was our decision to focus on digitalization early on, although it turned out to be far more multifaceted than we originally anticipated. It also brought with it a profound cultural change in all areas of the Company as a major success factor. However, customers and suppliers also have to be persuaded to work with us digitally. While most consumers use online platforms such as Amazon for their personal shopping, for example, there is not necessarily the same willingness to use online platforms at work. Although the inertia in traditional industries is substantial, we did not let it affect us and held fast to our digitalization strategy. Ultimately, there is no stopping this trend; in fact, it has even accelerated due to the pandemic. I have no doubt that in the future all processes will be supported by digital technologies and artificial intelligence, if not fully automated. These changes do not progress in a linear fashion, but are increasingly exponential. With the spread of COVID-19, we were all forced to experience the consequences of exponential growth. Sitting tight and simply reacting is not the answer. So at Klöckner & Co, we decided at an early stage not to drift with the current but to be a driver of digitalization ourselves.

We started with a clear goal: customers should be able to procure steel and metal products as easily and efficiently as possible. We are advancing toward this goal fueled by our digital hub, kloeckner.i in Berlin. While other companies have set up innovation hubs and shut them down again, we have continuously grown kloeckner.i since its establishment in 2014 and found the right balance between proximity to and distance from the rest of the Group. Consequently, kloeckner.i works independently enough to take a creative approach to new solutions, and is at the same time close enough to the operating business to maximize benefits for the customers. The greatest testimony to kloeckner.i's success is the fact that our country organizations now take an active role in developing new software, pushing the rollout and implementation of additional features.

With this, we have now achieved the ability to offer our customers various digital channels for different purposes. If they are looking for a particular steel product, they can get it quickly via our Onlineshop. Regular orders can be accessed on our Contract Portal. Customers who come with questions about prices and delivery terms are served by our Kloeckner Assistant. This is an AI-based, self-learning application that automatically processes requests and orders without the need for customers to adapt their own purchasing processes and systems. After having focused in recent years on digitalizing our frontends, the Kloeckner Assistant represents a giant step we have now taken toward digitalizing our backend, i.e. linking our in-house processes to the rest of the digitalized chain. Apart from the efficiency gains coupled with considerable cost savings, we expect that being able to process requests and orders much more quickly will lead to market share growth. Digitalization and further optimization measures associated with the Surtsey project should contribute over €100 million to earnings by the end of 2021. Not only that – we are well on track to exceed our goal of generating 60% of Group sales via digital channels in 2022. But even that is of course just one more milestone on the road to 100% digital sales.

In addition to kloeckner.i, our venture capital arm kloeckner.v is playing a vital role in our transformation. Through kloeckner.v, we invest in venture capital funds and directly in selected start-ups that help us to accelerate the transformation.

With the increasing digitalization, we have come much closer to our goal of transforming Klöckner & Co into a platform company. One feature of platform companies is the relatively low variable costs that enable significantly faster growth than is possible for traditional companies. We are cutting variable costs by automating core processes such as procurement and sales. Another key characteristic of platform companies are their network effects, which are generated by the fact that each new user on a platform increases the benefits for all participants at a disproportionately large rate. We are taking advantage of this effect by continuously growing our platform, adding more customers and also suppliers who are not our direct competitors, which also expands the range we offer and lets us tap into new markets. We aim to leverage these two aspects to increase our value on the stock market, where enterprise value is ultimately the product of operating income and an industry-specific multiplier. So we want to increase not only our operating income but also – by transforming our business model from a steel distributor to a platform company – the multiplier for the operating income.

In addition to transforming Klöckner & Co, we have also created a purely virtual platform company: the open industry platform XOM Materials. Unlike the Klöckner platform, XOM Materials is a place where direct competitors can also offer their products and services. XOM Materials currently features three solutions: the Marketplace, eShops and the eProcurement tool for purchasers. Traditionally, buyers have requested price quotations for steel products from various steel distributors and then compared the various offers, which were usually made up of numerous line items. This is a laborious process, due in part to the fact that items such as transport and other additional costs may or may not be included. Thanks to its standardized template, the XOM eProcurement solution makes comparing quotations fast and efficient. It uses that as a basis to recommend optimized offers, which customers can also negotiate directly through the application using the chat feature. This brings the procurement process and supplier management together in one central tool. Ten of Europe's 20 largest manufacturers already use the XOM eProcurement tool. Since January 2021, XOM also made the procurement platform available to the US and Brazilian markets.

The rising demand is reflected in the increasing growth of XOM Materials. In 2020, we increased the gross merchandise volume (GMV) – i.e. the value of all the products sold – by a factor of 13 to over €140 million. This year, we aim to achieve a target GMV for the platform of approximately €1 billion. In order to achieve this goal, we aim to make XOM Materials even more independent from Klöckner & Co and bring external investors on board in a first financing round. Greater independence should also help to attract competitors who are not yet using the platform. In addition, this will place the financing for future growth on a broader foundation. This represents another step toward our ambitious goal of becoming the central hub in a digital ecosystem for the materials industry with XOM Materials.

Our transformation of our core business as well as the development of XOM Materials has also captured the attention of internationally renowned universities and business schools. The business schools at Harvard and Stanford in the USA as well as the University of St. Gallen and the ESMT Business School in Europe have made Klöckner & Co the subject of case studies.

We are not leaving our employees to tackle the far-reaching changes at Klöckner & Co alone. Both the Management Board and the management teams at our operating units communicate regularly and transparently about the digital transformation and encourage open, hierarchy-free dialog.

This occurs chiefly on Yammer, our in-house social network, which large numbers of the workforce now actively use. Klöckner & Co also offers all employees online courses via the Digital Academy, which they can attend during working hours, in order to expand the digital skillset they will need for tomorrow's job market. Course registrations doubled to more than 9,000 in 2020, reflecting the gratifyingly high acceptance of the courses and the great value placed on digitalization. With this offering, we not only enable our staff to actively grow their skills, but also steadily raise Klöckner & Co's digital IQ.

With support from the digital transformation, we also continued to push ahead with sustainability at Klöckner & Co. The two areas complement each other perfectly, as the continually improving availability and analysis of data helps us to predict steel demand more accurately and optimize logistics. Going forward, this will enable us to reduce our CO_2 emissions considerably. In order to place even greater emphasis on these efforts, at the beginning of 2020 we signed up to the UN Global Compact Initiative "Business Ambition for 1.5°C," which aims to limit global warming to 1.5°C. At XOM Materials, we are also members of the Leaders for Climate Action initiative.

In addition to the implementation of Surtsey and our ongoing digital transformation, we also naturally dealt with the immediate impacts of the COVID-19 pandemic in the past fiscal year. The health of our workforce was always our top priority. We promptly implemented hygiene concepts at our sites along with additional safety measures. Here, again, the well advanced digitalization at Klöckner & Co proved as a huge advantage.

Although we succeeded in fully maintaining our delivery capability thanks to our smooth transferal of a large proportion of our activities to the home office environment, the slump in global steel demand and periodic collapse of supply chains resulted in shipments coming in at 14% below the prior-year figure. Our immediate response was not only to accelerate digitalization but also to implement accompanying and additional restructuring measures, all within the framework of the Surtsey project, and we already completed some 80% of the planned workforce reduction of around 1,200 (approx. 15% of the workforce). Although this enabled us to cushion the impacts of the pandemic significantly, operating income (EBITDA) before material special effects came to €111 million in 2020, €13 million down on the prior year's €124 million. Net loss, additionally affected by restructuring expenses, amounted to €114 million, down by €59 million on the prior-year figure of €55 million. By contrast, both free cash flow and cash flow from operating activities were strongly positive, at €99 million and €161 million respectively. In this context, we reduced our net debt by a further €94 million to €351 million. Thanks to this lower debt level combined with other cost reductions in the current year, we are well positioned financially to weather even a prolonged crisis without external support.

As a result of the net loss, we will recommend to the Annual General Meeting on May 12 that no dividend be distributed for the fiscal year 2020. Naturally this is unsatisfactory, although our share price, with a gain of some 27%, outperformed the DAX and SDAX as well as our peer group in the past year.

After 16 years at Klöckner & Co, eleven of them as CEO, I will be leaving the Company following the close of the Annual General Meeting. My successor, Guido Kerkhoff, has been responsible for the operating business in Europe as Deputy Chairman of the Management Board since September 2020. During the past weeks and months, we have used the time together in intense preparations for a smooth transition at the top of the Company. I am fully confident that Guido Kerkhoff is ideally poised to bring fresh impetus to the Company that will successfully build upon everything we have achieved thus far. I wish him every success in his endeavors.

In many respects, 2020 was an eventful year for Klöckner & Co. So I would like to thank our dedicated employees for their extraordinary commitment. It is impressive to see how boldly and passionately a transformation of this dimension is being carried out in these challenging times. I would also like to express my gratitude to our Supervisory Board for their active support of our Company's transformation through the years, and to you, our shareholders, for your enduring trust and loyalty.

In 2008, UNESCO added Surtsey to the World Heritage list as an outstanding example of ongoing biological and ecological processes in the evolution of ecosystems. The platform economy and start-up collaborations offer Klöckner & Co the opportunity to create an outstanding company in our industry's ecosystem. I wish everyone involved the greatest success.

Gisbert Rühl
Chairman of the Management Board

Management Board

Gisbert Rühl

CHAIRMAN OF THE MANAGEMENT BOARD (CEO)

Born in 1959, CEO since November 1, 2009, appointed until December 31, 2021. He is responsible for the coordination of the Management Board and functionally responsible for the divisions Corporate Communications, Corporate Development/M&A, Group HR, Investor Relations & Sustainability und Legal & Governance/Risk/Compliance. As part of his responsibility for Corporate Development Gisbert Rühl is in charge for implementing the digitalization strategy.

Guido Kerkhoff

MEMBER OF THE MANAGEMENT BOARD (DEPUTY CHAIRMAN OF THE MANAGEMENT BOARD)

Born in 1967, Deputy Chairman of the Management Board of Klöckner & Co SE since September 1, 2020, and appointed until August 31, 2023. As Chief Executive Officer Europe (CEO Europe) he is responsible for European Operations and Strategic Procurement.

Dr. Oliver Falk

MEMBER OF THE MANAGEMENT BOARD (CFO)

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

John Ganem

MEMBER OF THE MANAGEMENT BOARD (CEO AMERICAS)

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

Report of the Supervisory Board

During the reporting year, the Supervisory Board performed, with due care, the tasks required by law, the Company's Articles of Association and the Rules of Procedure. The Supervisory Board supervised and regularly advised the Management Board, and satisfied itself that the Management Board's decisions and actions were legally compliant, orderly and fit for purpose. Where appropriate, the Supervisory Board consulted external experts and relevant studies. The Supervisory Board adopted resolutions as required by law, the Articles of Association or the Rules of Procedure, in each instance after thorough and careful appraisal. This in particular included transactions and measures for which the Articles of Association and/or Rules of Procedure require the Management Board to obtain Supervisory Board approval; after in-depth consultation, the Supervisory Board granted the required approval in each case.

The Supervisory Board was involved on a timely basis in all matters of fundamental importance. To this end, the Management Board provided the Supervisory Board with information on planning, the Company's business and financial situation, and all transactions of importance to the Company and the Group, both in and between Supervisory Board meetings. Supervisory Board meetings regularly include reports on the overall economic climate, the industry situation and the performance of the Klöckner & Co Group and its segments, key performance indicators and the performance of the Klöckner & Co share price. Risk exposure, risk management, the internal control system and compliance (including data protection and information security) are also covered in detail. Corporate strategy, among other matters, was discussed in particular detail at the September meeting. The corporate strategy and its implementation were also addressed at all other ordinary meetings of the Supervisory Board during the reporting year. In all instances, the Supervisory Board was supplied with comprehensive documentation.

Both in plenary sessions and in committee meetings, the members of the Supervisory Board thoroughly reviewed the Management Board's reports and intended actions and made various suggestions. Information was also exchanged on a regular basis between meetings; this exchange was further stepped up in the reporting year with regard to the impacts of the COVID-19 pandemic, for example with temporarily weekly status reports to the Supervisory Board. Written reporting by the Management Board during the reporting year once again centered on the detailed monthly Board Reports. Independently of this, the CEO, Deputy CEO and CFO, in variously alternating pairs, met with the Chairman of the Supervisory Board to report on current business developments, salient issues and upcoming decisions, to discuss them with him and decide on the further course of action.

Organization of the Supervisory Board's work

The six-member Supervisory Board is made up entirely of shareholder representatives. The Supervisory Board has established two committees to carry out its duties: an Executive Committee and an Audit Committee, each with three members.

The members of the Supervisory Board are Prof. Dr. Dieter H. Vogel (Chairman), Dr. Ralph Heck (Deputy Chairman), Prof. Dr. Karl-Ulrich Köhler, Prof. Dr. Tobias Kollmann, Prof. Dr. Friedhelm Loh and Ute Wolf. All Supervisory Board members have (in most cases longstanding) experience on management and/or supervisory bodies of various entities and, with their expertise, together optimally cover the full range of responsibilities required by the Company.

The Executive Committee comprises Prof. Dr. Dieter H. Vogel (Chairman), Dr. Ralph Heck and Prof. Dr. Friedhelm Loh. The Executive Committee also carries out the functions of a Personnel Committee and a Nomination Committee. The Audit Committee comprises Ute Wolf (Chairwoman), Prof. Dr. Vogel and Prof. Dr. Köhler. Ute Wolf is a financial expert within the meaning of Section 100 (5) of the German Stock Corporation Act (AktG) and further meets the requirements of Recommendation D.4 of the German Corporate Governance Code in the version of December 16, 2019 published on March 20, 2020 (also referred to in the following as the "Code"). At the plenary meetings, the committee chairpersons reported regularly and in-depth on topics covered in and outcomes of committee meetings. Where permitted by law, certain decision-making powers have been delegated to the committees.

The Management Board is closely involved in the work of the Supervisory Board. All members of the Management Board took part in Supervisory Board meetings except the extraordinary meeting on July 6, 2020. The meetings of the Executive Committee were attended by the CEO and those of the Audit Committee by the CFO. In the course of its meetings, the Supervisory Board also regularly consulted without the Management Board.

It is the individual responsibility of the members of the Supervisory Board to keep themselves informed about current issues and matters relating to their professional practice, and to further their training and professional development. They are supported in this by the Company, which in particular reimburses reasonable expenses for external professional development activities. This opportunity was made use of in the reporting year.

Meeting attendance

The Supervisory Board held a total of five plenary meetings in fiscal year 2020. In addition, three resolutions were adopted in writing. The Executive Committee met three times in the reporting year. The Audit Committee met five times in fiscal year 2020.

Four meetings of the Audit Committee took the form of video conferences or conference calls. These were the meetings to discuss the half-year financial report and quarterly statements before publication, plus the December meeting, which was held remotely because of the COVID-19 pandemic. Likewise due to the COVID-19 pandemic, the plenary meetings in May, July and December and the December meeting of the Executive Committee were held as video conferences.

Except for the extraordinary plenary meeting on July 6, which three members were unable to attend, and the Executive Committee meeting on March 2, 2020, which one member was unable to attend, all Supervisory Board and committee members attended all meetings in fiscal year 2020 (see Section 5.4.7 of the Code in the version of February 7, 2017 and Recommendation D.8 of the Code). The attendance rate for all Supervisory Board meetings, including committee meetings, was consequently a very good 92.6%.

Supervisory Board meeting agenda items and resolutions

During the reporting year, the Supervisory Board regularly dealt with the business situation, strategy implementation and strategy development. Multiple meetings also covered corporate governance matters (among others, the Declaration of Conformity and entry into force of the revised Code, together with legislative changes under the Act Implementing the Second Shareholder Rights Directive (ARUG II)), governance, risk and compliance issues, Management Board and Supervisory Board matters and reporting on current projects, including Group financing.

The business performance of the Group as a whole – along with the entire global economy – was heavily impacted in the reporting year by the effects of the COVID-19 pandemic. This also overshadowed other developments such as the US trade dispute with China, the US presidential election and Brexit. For Klöckner & Co, the outbreak of the pandemic initially had a substantial negative impact on the market and business situation, especially at the beginning of the second quarter. The negative effects were mitigated by Klöckner & Co's well advanced digitalization, which also meant that much of the workforce could switch to remote working immediately after the first lockdowns. Over the second quarter, the situation improved thanks to the Surtsey transformation and restructuring project launched right at the start of the pandemic, and as demand picked up again with rising steel prices. Also, the Management Board moved very early with a range of measures to reduce the health risks to employees as much as possible.

The lower cost base established by Surtsey will take full effect from fiscal year 2021 but already had a noticeable impact in the reporting year. While the various measures put into effect reduced the impacts of the pandemic, the fiscal year closed with a result considerably below the start-of-year expectations (formulated before COVID-19). Strict Net Working Capital management nevertheless resulted in a high cash flow from operating activities, thus further reducing the already low debt level. Besides the impacts of the COVID-19 pandemic on the market and business situation and action to be taken in that regard, a further central topic at Supervisory Board meetings was the ongoing digital transformation. In some cases, the pandemic led to an acceleration of developments already in progress. In particular, the Kloeckner Assistant for automating sales and the XOM eProcurement tool as a support for procurement were rolled out across almost all country organizations. As a result, the proportion of sales generated via digital channels rose in the reporting year to 45% of total sales (Q4 2020). Not least with a view to the technologies afore mentioned, digitalization is expected to have a noticeable positive impact in the new fiscal year as well.

The Supervisory Board closely watched and analyzed share price performance throughout the reporting year and discussed it with the Management Board at meetings. In the reporting year, the share price was initially hit by the upheavals due to the COVID-19 pandemic and fell to an all-time low at the start of the second quarter. As the reporting year progressed, however, the share price recovered to close very significantly higher than the start-of-year share price, also outperforming the leading share indices and the peer group index.

The Supervisory Board also closely monitored the financing side, with a particular focus on safeguarding liquidity in view of the COVID-19 pandemic and the consequent challenging refinancing environment. The Supervisory Board continues to view the Group's finances as well diversified, solid and balanced. With regard to the maturity profile, the syndicated loan was extended ahead of term with the majority of the banks involved to beyond 2022. The ABS program in Europe and the ABS and ABL programs in the USA were renewed in the reporting year with corresponding maturities and adjusted in their amounts to match the lower funding requirements as a result of Surtsey. In Europe, the ABS program was completely renewed with a change in lead bank and in line with current market standards and regulatory requirements. Similarly in the USA, the previous ABS and ABL program was terminated and replaced with a new, combined facility.

Significant topics dealt with at the Supervisory Board meetings included the following:
At its meeting on March 2, 2020, the Supervisory Board approved, among other things, the Company's annual and consolidated financial statements for 2019 and the Group non-financial report. Furthermore, the Supervisory Board adopted the motions for the Company's 2020 Annual General Meeting, including the proposal for election of the auditor. Management Board matters were addressed and related resolutions adopted (among others 2019 bonus, 2020 targets, etc.), and discussions were held on current market and business development, already with a view to impacts of the COVID-19 pandemic. Corporate strategy was also covered, with a focus on digitalization and a detailed presentation on the XOM eProcurement solution and Kloeckner Assistant as new technologies. Finally, consultations turned to the forthcoming entry into force of the revised Code, legislative changes under the Act Implementing the Second Shareholder Rights Directive (ARUG II) and resulting changes relevant to the Company, and a detailed action plan was devised for the impending changes, notably with regard to Management Board remuneration.

The Supervisory Board meeting on May 20, 2020 was largely devoted to preparing for the Company's Annual General Meeting to follow on the same day, due to the COVID-19 pandemic as a virtual Annual General Meeting without the presence of shareholders. Current market and business developments were also discussed and a detailed presentation of the Surtsey digitalization and restructuring project was given by the Management Board. Extension of the syndicated loan ahead of term was also reported on and consentingly noted by the Supervisory Board with approval. The meeting ended with a discussion of the encouraging results of an employee survey conducted at the beginning of the fiscal year.

The sole agenda item at the extraordinary meeting of the Supervisory Board on July 6, 2020 was the appointment of Guido Kerkhoff as Deputy Chairman of the Management Board effective September 1, 2020.

Among the items on the agenda at the Supervisory Board meeting of September 15, 2020 were Management Board matters (schedule of responsibilities), the commissioning of an external preliminary review of the Group non-financial report and the regular efficiency review on the work of the Supervisory Board as a self-assessment carried out in detailed form as scheduled in the reporting year. Additionally, the Supervisory Board consulted in detail on the course of business and strategic matters. Furthermore, the Supervisory Board approved the renewal of the European ABS program and the restructuring of the US ABS/ABL program as a combined facility. Finally, there followed a detailed discussion of the Management Board and Supervisory Board remuneration system to be proposed at the 2021 Annual General Meeting in accordance with ARUG II and of the long-term succession planning for the Management Board – in both cases without the members of the Management Board in attendance.

At its meeting on December 14, 2020, the Supervisory Board primarily addressed corporate planning and the budget for fiscal year 2021 (including the two subsequent years). The meeting also focused on corporate governance and Supervisory Board matters (Declaration of Conformity, proposed remuneration system, succession planning for the Management Board). Resolutions were adopted as an outcome of the efficiency review on the work of the Supervisory Board, as were resolutions on Management Board matters (revision of the Rules of Procedure for the Management Board and setting of bonus targets for fiscal year 2021). The annual compliance report was also discussed.

The following additional resolutions were adopted in writing (the date in each case is that of confirmation of the resolution by the Chairman of the Supervisory Board): on January 30, 2020 extending the appointment of Gisbert Rühl to the end of 2021, on April 22, 2020 to hold the 2020 Annual General Meeting as a virtual Annual General Meeting, and on August 27, 2020 concerning an investment project (new site for the London region in the UK).

Reports from the committees
Executive Committee:
The Executive Committee met a total of three times in 2020. Where these meetings were followed by a plenary meeting, they dealt among other matters with the agenda for the next Supervisory Board meeting.

Topics of the Executive Committee meeting on March 2, 2020 included strategy issues, Management Board matters (proposal for variable remuneration for fiscal year 2019, specification of variable remuneration targets for fiscal year 2020 and succession planning for the office of CEO) and governance issues (the revised Code and entry into force of the Act Implementing the Second Shareholder Rights Directive (ARUG II)).

At its September 15, 2020 meeting, the Executive Committee dealt among other things with preparation of the efficiency review on the work of the Supervisory Board, Management Board matters, strategy issues and the development of a proposal for the Management Board and Supervisory Board remuneration system.

The meeting on December 14, 2020 addressed, among other matters, corporate governance and Supervisory Board matters (Declaration of Conformity, proposed remuneration system and succession planning for the Management Board), corporate strategy and the budget for 2021. In addition, the Executive Committee discussed the outcomes of the efficiency review on the work of the Supervisory Board, Management Board matters (revision of the Rules of Procedure for the Management Board and setting of bonus targets for fiscal year 2021) and the composition of the Supervisory Board and its committees with a view to the forthcoming Supervisory Board elections in 2021.

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

At the in-person meeting on March 2, 2020, the Audit Committee primarily addressed the Company's annual and consolidated financial statements for 2019 and the Group non-financial report. In the same meeting, the Audit Committee discussed the proposal for the election of the auditor for 2020 and prepared the groundwork for the plenary Supervisory Board to issue the audit engagement. The Audit Committee saw no need to recommend to the Supervisory Board additional focal points for the auditor's activities beyond the statutory mandate. Also discussed were the expected response of the capital market together with governance matters.

At the meetings on April 30, 2020, August 11, 2020 and October 28, 2020, which were held as conference calls or video conferences, the drafts of the half-yearly financial report and quarterly statements were discussed prior to publication. Focal topics were the development of the Group's business and financial situation, impacts of the COVID-19 pandemic and the measures taken or planned by the Company, the Surtsey digitalization and restructuring project launched by the Management Board and the project's implementation status. All this was discussed with the CFO, who was in attendance, on the basis of Management Board reports and the key performance indicators. The expected response of the capital market was also discussed. In the course of the discussion, the Audit Committee brought up points and suggestions that were incorporated into the final versions of the half-yearly financial report and the quarterly statement for the first quarter 2020. Potential risks with a review to the case of Wirecard were also addressed. Other matters regularly covered in connection with the quarterly and half-yearly reporting notably included governance (the internal control system, risk management, compliance, data protection and information security), aspects of corporate financing and auditing of the financial statements (budget negotiations and quality review) and the committee's internal activity list. Also in the April meeting, the Audit Committee revisited the audit findings of Internal Audit for fiscal year 2019 in a follow-up to the December 2019 meeting and discussed the review of the Management Board and senior executive travel expenses. In addition, the system for monitoring related party transactions within the meaning of the Act Implementing the Second Shareholder Rights Directive (ARUG II)) was presented and approved by the Audit Committee.

The meeting on December 14, 2020 primarily addressed governance matters relating to internal control (the internal control system, risk management and risk report, 2020 internal audit findings and the 2021 audit plan) as well as matters relating to compliance, data protection and information security. Additionally, the Audit Committee consulted on the Dependency report to be prepared for the first time for fiscal year 2020 and on accounting issues (definition of special effects).

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

Corporate governance and Declaration of Conformity

On December 14, 2020, the Supervisory and Management Boards issued the Declaration of Conformity in accordance with Section 161 of the German Stock Corporation Act (AktG). The Declaration, which is permanently available to shareholders on the Company's website, states that Klöckner & Co SE complies with all recommendations of the Code with two exceptions. Further information on corporate governance can be found beginning on page 88 of this Annual Report. The Management Board and Supervisory Board keep abreast of changes to the recommendations of the Code and suggestions, along with their implementation. They also take part in related consultation procedures as required.

Treatment of conflicts of interest

In relation to the Supervisory Board, no instances of conflicts of interest arose in the reporting year that had to be addressed by the Supervisory Board. The expression of interest with regard to a possible takeover bid submitted to the Management Board by SWOCTEM GmbH and the Apollo private equity group was withdrawn after a short period of time and not pursued further. Any potential conflict of interest on the Supervisory Board that could have arisen as a result consequently did not materialize.

Audit of the 2020 annual and consolidated financial statements including the Group non-financial report and the Dependency report

Klöckner & Co SE's annual financial statements for fiscal year 2020 and the consolidated financial statements and combined management report were audited and issued with an unqualified audit opinion by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, the auditor elected by the Annual General Meeting and engaged by the Supervisory Board. Klöckner & Co SE's annual financial statements and the combined management report for Klöckner & Co SE and the Group were prepared in accordance with German commercial law. Pursuant to Section 315e of the German Commercial Code (HGB), the consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union. The audit reports and further documentation relating to the financial statements, including the Group non-financial report and the audit report thereon, were made available to all members of the Supervisory Board in a timely manner; the same applies to the Dependency report and the audit report on that. These documents were dealt with in detail by both the Audit Committee and the plenary Supervisory Board in the presence of the auditor. In particular, in relation to the annual and consolidated financial statements, the key audit matters described in the relevant audit opinion as well as the audit procedures applied were also discussed. The auditor took part in the discussions, reported on the material findings of the audit and responded to questions. At the Supervisory Board meeting held on February 25, 2021 to approve the annual financial statements, the Chairwoman of the Audit Committee reported on the Audit Committee's consultations on the annual and consolidated financial statements and the combined management report. With regard to the risk early warning system, the auditor stated that the Management Board had taken the measures required in Section 91 (2) of the German Stock Corporation Act in an appropriate manner – in particular for establishing a monitoring system – and that the monitoring system was capable of promptly identifying developments threatening the Company's ability to continue as a going concern. The Supervisory Board received and approved the auditor's findings and the explanations provided by the Chairwoman of the Audit Committee. On completion of its own examination of the Company's annual financial statements, the consolidated financial statements and the combined management report, as well as in line with the Audit Committee's recommendation, the Supervisory Board concluded that there were no objections to be raised. At its meeting on February 25, 2021, the Supervisory Board approved the annual and consolidated financial statements prepared by the Management Board; the financial statements were thus adopted.

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

The report of the Management Board on relations with affiliated companies to be prepared pursuant to Section 312 of the German Stock Corporation Act (Dependency report) was audited by the auditor and issued by them with the following unqualified audit opinion:

“Based on our prudent and evalutation audit and assessment, we confirm that

- the factual disclosures in the report are correct,

- the consideration given by the Company in the transactions listed in the report was not unreasonably high.”

The Supervisory Board has examined the Dependency report. On February 25, 2021, the Dependency report and the auditor’s audit report were addressed in detail and discussed with the auditor by the Audit Committee and the Supervisory Board; the Supervisory Board noted the auditor’s findings with approval. On completion of its own examination, and in line with the Audit Committee’s recommendation, the Supervisory Board concluded that there were no objections to be raised to the Dependency report including the Management Board’s concluding statement.

Changes on the board
The composition of the Supervisory Board of Klöckner & Co SE did not change in fiscal year 2020. That also applies to the composition of the committees.

The composition of the Management Board of Klöckner & Co SE changed as follows in fiscal year 2020: Guido Kerkhoff was newly appointed to the Management Board of Klöckner & Co SE (as Deputy Chairman of the Management Board) effective September 1, 2020. Following the Annual General Meeting on May 12, 2021, he will take over as CEO from Gisbert Rühl, who is to leave the Management Board before the end of his term by mutual agreement.

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

A huge vote of thanks goes out from the Supervisory Board to Gisbert Rühl for his many years of intensive and creative work at the top of the company.

Duisburg, February 25, 2021

Prof. Dr. Dieter H. Vogel
Chairman

Supervisory Board

Supervisory Board

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

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

Prof. Dr. Karl-Ulrich Köhler
CEO of SHS-Stahl-Holding-Saar GmbH, Dillingen/Saar, Germany

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

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

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

Executive Committee

(also the Personnel Committee and the Nomination Committee)

Prof. Dr. Dieter H. Vogel
Chairman

Dr. Ralph Heck

Prof. Dr. Friedhelm Loh

Audit Committee

Ute Wolf[1)]
Chairwoman

Prof. Dr. Karl-Ulrich Köhler

Prof. Dr. Dieter H. Vogel

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

1. Klöckner & Co on the capital market

KLÖCKNER & CO SHARES

ISIN DE000KC01000 – German Securities Code (WKN) KC0100
Stock exchange symbol: KCO
Bloomberg: KCO GR
Reuters Xetra®: KCOGn.DE

€8.01
Year-end closing share price on December 30, 2020

SHARE PRICE PERFORMANCE

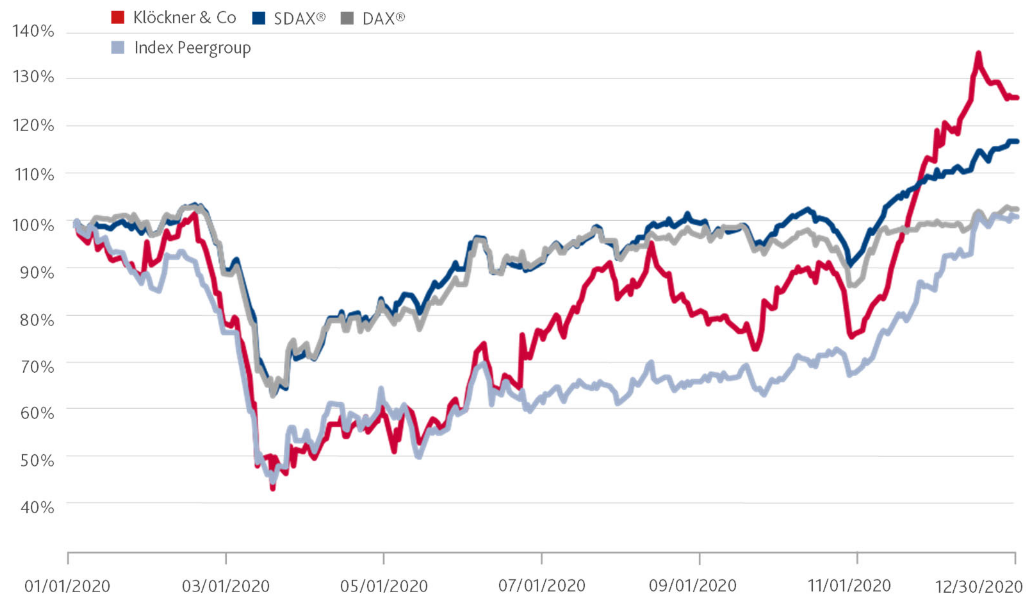
Capital market developments were highly volatile over the course of the year due to the effects of the COVID-19 pandemic. Klöckner & Co's share price initially moved sideways at the beginning of 2020. As the COVID-19 pandemic spread, the share price then fell sharply to a low of €2.74 on March 18. It then recovered until the middle of the third quarter. After two brief price corrections that continued through late October, the Klöckner & Co share price once again rose significantly towards the year-end, marking its high of €8.60 on December 17. It closed the year at €8.01 on December 30.

KEY DATA – KLÖCKNER & CO SHARE

		2020	2019	2018	2017	2016
Share Capital	€	249,375,000	249,375,000	249,375,000	249,375,000	249,375,000
Number of shares	in shares	99,750,000	99,750,000	99,750,000	99,750,000	99,750,000
Closing price (Xetra®, Close)	€	8.01	6.28	6.06	10.29	11.91
Market capitalization	€ million	798	626	604	1,026	1,188
High (Xetra®, Close)	€	8.60	7.29	11.62	12.89	12.91
Low (Xetra®, Close)	€	2.74	4.35	5.98	9.03	7.08
Earnings per share (basic)	€	– 1.16	– 0.56	0.68	1.01	0.37
Average daily trading volume	in shares	462,280	751,631	537,078	619,819	527,299
Dividend per share[1]	€	-	-	0.30	0.30	0.20
Dividend yield based on closing stock price	%	-	-	5.0	2.9	1.7
Total dividend paid[1]	€ million	-	-	29.9	29.9	20.0

[1] In each case for the fiscal year. 2020: Proposal to the Annual General Meeting on May 12, 2021.

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

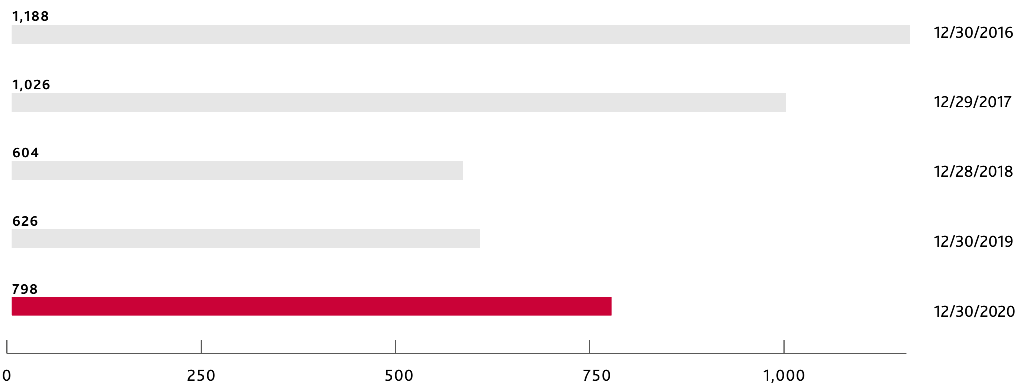


Over fiscal year 2020, the Klöckner & Co share price gained around 27% on the prior-year closing price. The Klöckner & Co share is benchmarked against a peer group index, which rose by approximately 2% in the reporting period. This index tracks the share price performance of companies that are comparable to Klöckner & Co and is based on thyssenkrupp, Salzgitter, Arcelor Mittal, Voestalpine, Swiss Steel, Reliance, Olympic Steel and Ryerson. The SDAX® recorded an increase of 18% on the prior year, while the DAX® gained 4%. In Deutsche Börse AG's December 2020 joint rankings of DAX®, MDAX® and SDAX® stocks covering a total of 160 companies, Klöckner & Co shares ranked 138th by free float market capitalization and 125th by trading volume.

MARKET CAPITALIZATION

The Company's market capitalization was approximately €798 million at the end of the reporting period, compared with €626 million as of December 30, 2019.

MARKET CAPITALIZATION
(in €m)



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

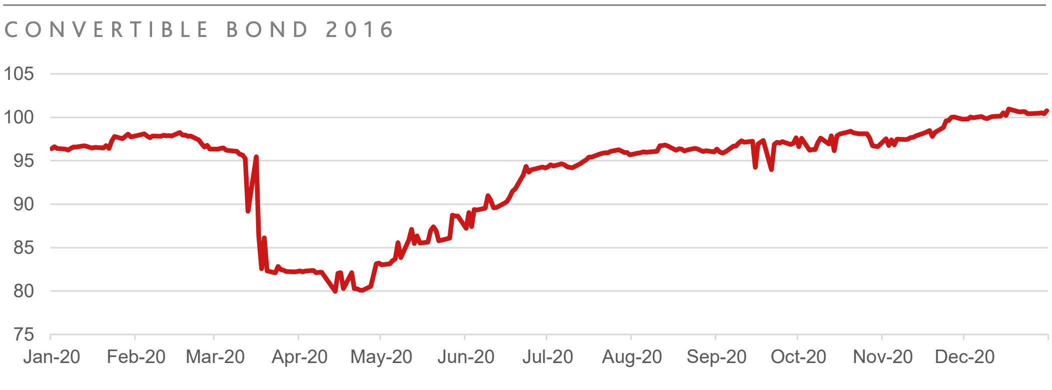
PERFORMANCE OF THE KLÖCKNER & CO CONVERTIBLE BOND

Klöckner & Co SE launched a €148 million convertible bond issue in September 2016 with a maturity of seven years and a denomination of €100,000 per bond. As intended, the bonds were taken up exclusively by institutional investors. The bonds feature a coupon of 2.00% p.a. and are traded on the Open Market at the Frankfurt Stock Exchange (Open Market, ISIN DE000A185XT1). The conversion price was initially set at €14.82 and modified to around €13.33 in connection with the 2019 dividend payment. Klöckner & Co uses the proceeds from the issue for general business purposes.

KLÖCKNER & CO CONVERTIBLE BOND: KEY DATA

	Convertible Bond 2016
Convertible Bond	2016
German securities code	A185XT
ISIN	DE000A185XT1
Issue volume	€147.8 million
Issue date	September 8, 2016
Maturity date	September 8, 2023
Investor put option (bondholders' call right)	September 8, 2021
Coupon p. a.	2.00%
First Conversion price	€14.82

On December 31, 2020, the 2016 convertible bond was trading at approximately 100.76%.



2020 ANNUAL GENERAL MEETING

The 14th Annual General Meeting of Klöckner & Co SE was held in Düsseldorf on May 20, 2020. On account of the COVID-19 pandemic, it was held as a virtual Annual General Meeting in order to protect the health of our shareholders and employees. This took place on the basis of the official regulations in place at the time pursuant to the Act Concerning Measures Under the Law of Companies, Cooperative Societies, Associations, Foundations and Commonhold Property to Combat the Effects of the COVID-19 Pandemic, following a decision made by the Management Board with the consent of the Supervisory Board.

Annual General Meeting attendance more than 53%

All shareholders were able to register for the Annual General Meeting, vote, submit questions to the Group prior to the event and follow the full proceedings live via the online service on our website at www.kloeckner.com. In addition, the speeches by the Chairman of the Supervisory Board and the CEO were streamed live on the Group's website, where they continue to be available for viewing. In total, more than 53% of the voting share capital voted on resolutions. Shareholders approved all of the resolutions proposed by the Supervisory and Management Boards by a large majority.

GROUP OF ANALYSTS

Klöckner & Co SE continues to attract strong interest among capital market participants. Klöckner & Co's shares were being watched and rated by twelve analysts at the end of 2020. In total, the analysts published more than 130 research reports. At the end of the year, eight securities houses gave our shares a "buy" recommendation, two gave a "hold" recommendation and two recommended a "sell." We provide an up-to-date overview of investment recommendations on our website under Investors/Shares/Analysts.

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Analysts covered Klöckner & Co shares

Klöckner & Co shares were analyzed by the following banks and securities houses as of the end of 2020:

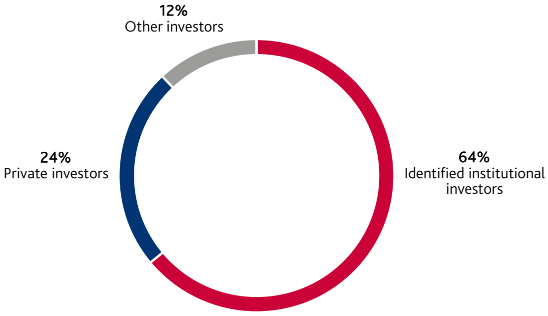
Bankhaus Lampe	Independent Research
Commerzbank	Jefferies International Equities
Credit Suisse	Kepler Cheuvreux
Deutsche Bank	LBBW
DZ Bank	Metzler Equity Research
Exane BNP Paribas	NordLB

24%
of the share capital is held by private investors

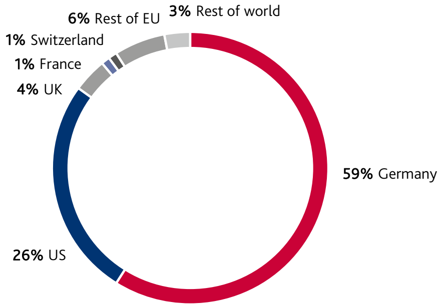
OWNERSHIP STRUCTURE

To gain a current overview of the regional distribution of its investors, Klöckner & Co again had shareholder identification analyses carried out on a regular basis in the reporting year. The findings are an aid in targeting investor relations activities to specific groups as well as in effective roadshow and conference planning. Around 96% of investors were identified in February 2021: Institutional investors were shown to hold 64% of the share capital and retail investors 24%.

SHAREHOLDER STRUCTURE OF KLÖCKNER & CO SE



GEOGRAPHIC BREAKDOWN OF IDENTIFIED INSTITUTIONAL INVESTORS OF KLÖCKNER & CO SE



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

OPEN AND CONTINUOUS COMMUNICATION

In-depth communication with institutional and private investors

At Klöckner & Co, Investor Relations (IR) is all about transparent and continuous communication with private and institutional investors. Throughout 2020, members of the Management Board and the IR team once again kept domestic and international investors up to date on the results and the potential of the Klöckner & Co Group. Because of restrictions due to the COVID-19 pandemic, these meetings were largely held in virtual form during fiscal year 2020.

Retail and institutional investors were able to find out about Klöckner & Co SE at the virtual Annual General Meeting, at conferences in all the major financial centers in Europe and the USA as well as in numerous additional individual meetings (mostly virtual). Talks with investors primarily focused on the Klöckner & Co Group results, impacts of the COVID-19 pandemic on the operating business, and making use of the crisis to accelerate Klöckner & Co's digital transformation and improve profitability.

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

Interested parties involved in capital markets can obtain additional information on topical issues, news and interviews around our Company, share price and capital market story by following us on Twitter. You will find our Twitter channel at www.twitter.com/Kloeckner_Co.

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

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

CONTACT

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Email: ir@kloeckner.com

GROUP MANAGEMENT REPORT

Klöckner & Co SE Combined Management Report for Fiscal Year 2020

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

1. Fundamental information about the Group

1.1 Group structure

Klöckner & Co SE is the parent and ultimate holding company of the Klöckner & Co Group. It controls the management companies of the segments “Kloeckner Metals US,” “Kloeckner Metals Services Europe,” “Kloeckner Metals Switzerland” and “Kloeckner Metals Distribution Europe” with their respective operational country organizations, and the “Holding and other Group companies” segment.

Due to the change in the internal report structure, minor adjustments were made to segment reporting in line with the management approach under IFRS 8 at the beginning of fiscal year 2020. The “Holding and other Group companies” segment, which alongside the holding company previously included other activities, such as the Brazilian distribution business, XOM Materials, kloeckner.i, kloeckner.v and the Dutch metering business, was restructured. Starting from January 1, 2020, the Brazilian distribution business has been allocated to the “Kloeckner Metals US” segment and the metering business to the “Kloeckner Metals Distribution Europe” segment. The previous year was adjusted correspondingly.

Klöckner & Co SE’s subscribed share capital remains unchanged at a total of €249.38 million, composed of 99.75 million no-par-value registered shares carrying full voting rights. Since the initial public offering at the end of June 2006, Klöckner & Co SE’s shares have been listed on the Frankfurt Stock Exchange’s Regulated Market (Prime Standard).

1.2 Business activities/business model

Around 140 distribution and service locations in 13 countries

Klöckner & Co is one of the [largest producer-independent] distributors of steel and metal products and one of the world's leading steel service center companies. We act as a connecting link between steel producers and consumers. As we are not affiliated with any particular steel producer, our customers benefit from our wide range of national and international sourcing options spanning some 60 main suppliers worldwide. Our competitive advantages include economies of scale in global procurement, our broad product portfolio, customer access via an extensive sales and distribution network, in addition to a very wide range of processing services. Spanning 13 countries with a focus on Europe and the USA, our global network provides customers with local access to some 140 distribution and service locations. The high level of availability of our roughly 200,000 products largely eliminates the need for our customers to hold inventory. Concentrated mainly in the construction industry as well as the machinery and mechanical engineering industries, our customer base comprises more than 100,000 mostly small to medium-sized steel and metal consumers. In addition, we supply intermediate products for the automotive, shipbuilding, and consumer goods industries.

We provide customers with an optimized, end-to-end solution from procurement through logistics to prefabrication, including individual delivery and 24-hour service – processes we are increasingly digitalizing. For example, we employ a variety of digital applications and platforms that provide our customers and business partners access to a broader spectrum of steel and metal products as well as services. We are constantly developing this digital portfolio in partnership with our customers. [In doing so, we have become pioneers in the digitalization of steel distribution. Our newly-developed solutions provide novel and unprecedented added value to the steel industry as evidenced by the growing number of users of our online applications and the XOM Materials platform, as well as by the share of sales generated via digital channels, which is rising at an increasing rate.]

Our approximately 7,300 employees apply their skills and enthusiasm every day to meeting our customers' needs and wishes. Around 70% of our workforce is employed in Europe and 30% in the Americas.

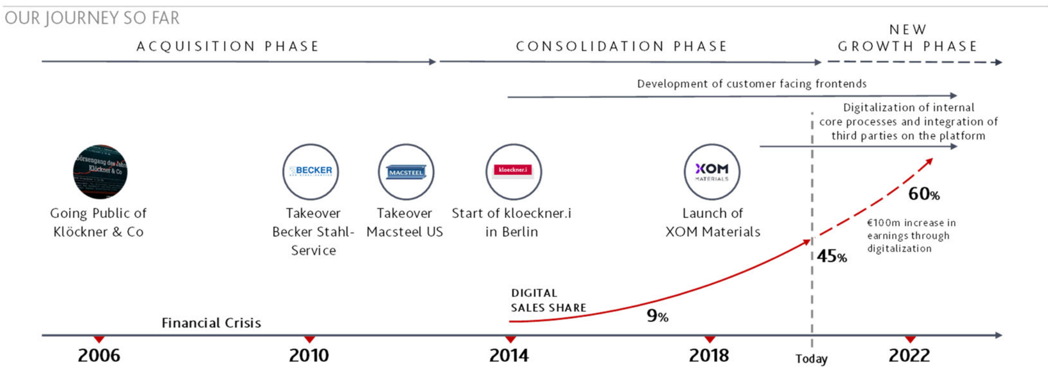
Both in Europe and North America, the market for warehouse-based distribution and steel service centers is highly fragmented and served by an assortment of different wholesale, regional and local dealers. There are around 3,000 companies operating in Europe and some 1,200 in the North American market. We have a market share of approximately 10% in Europe and 7% in the USA, putting us among the biggest distributors and steel service centers in each market.

1.3 Corporate strategy

Implementation of our "Klöckner & Co 2022" strategy

["Klöckner & Co 2022" – our strategy

As a pioneer in our industry, we have been systematically driving forward our digital transformation under the "Klöckner & Co 2022" strategy for several years now, and we accelerated this to a new level in the reporting year. As a result, we already achieved some 45% of sales via digital channels in the fourth quarter of 2020, as against 32% in the prior year. After the initial focus on customer interfaces, we are now digitalizing the end-to-end process, from ordering all the way through to shipment. As we do so, we are transforming Klöckner & Co more and more into a platform company, with much lower variable costs.

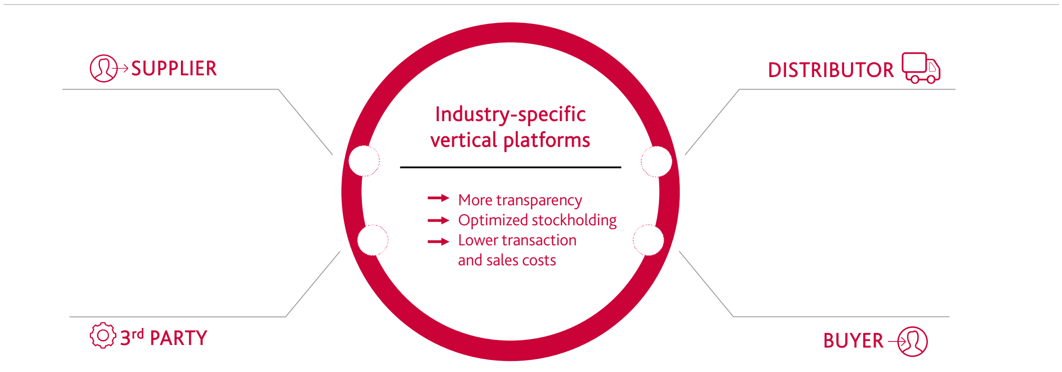


The core applications here are our Kloeckner Assistant and XOM eProcurement, with which we are automating our key procurement and sales processes. Alongside the transformation of Klöckner & Co, we have continued to upscale the XOM Materials platform for materials and services, which is open to competitors.

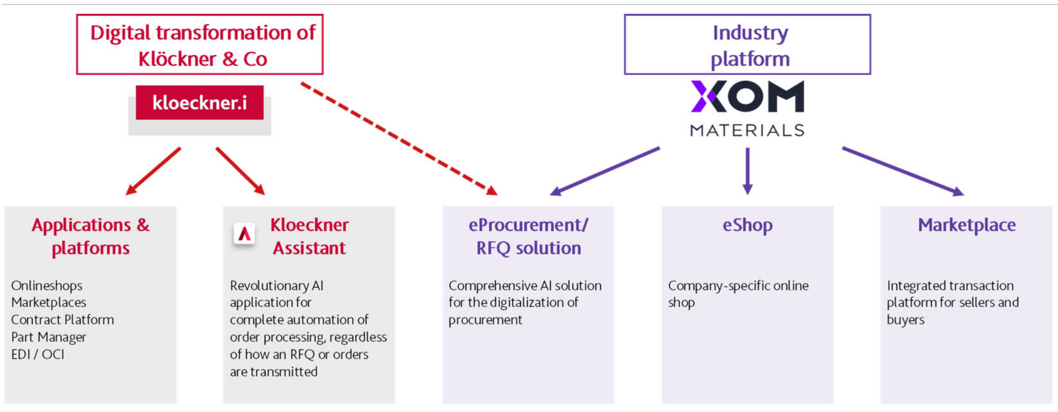
Platforms designed to cut out inefficiencies

Platforms for the transformation of linear supply and value chains

Steel and metal distribution continues to be characterized by volatile prices and intense competition. Linear supply chains and a lack of transparency also make the industry highly inefficient. Digital platforms break up such linear structures by fully integrating all market players into a single digital network. They cut out prevailing inefficiencies to optimize stockholding while reducing transaction and selling costs.

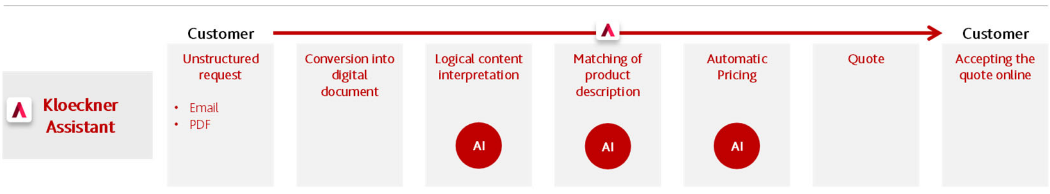


With our proprietary marketplaces and the XOM Materials open industry platform, we are the sole competitor in the industry to meet all of today's B2B customer needs by fully interconnecting market participants.



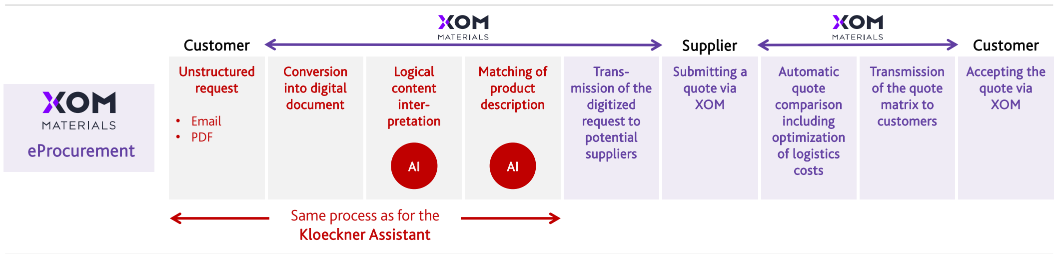
Since last year, the AI-based Kloeckner Assistant has turned all Klöckner & Co customers into digital customers without the need to change their procurement processes in any way. They can still send requests for quotes or orders to Klöckner & Co by email or PDF and promptly receive a quote or an order confirmation. Going forward, processing will be largely automated. This will not only significantly reduce manual effort, but also considerably accelerate what has always been a complex and time-consuming ordering process for both sides – from quote request and offer preparation right through to order input. During the reporting period, Kloeckner Assistant was rolled out across almost the entire organization and processed some €320 million in sales with 4,300 customers. This means that it already exceeded its operational targets in the first year it was implemented. In the process, the digital application – which is under continuous development – was able to learn from and improve its accuracy against over 90,000 documents. We already expect to process sales of over €1 billion via Kloeckner Assistant this year.

Revolutionary application: Kloeckner Assistant



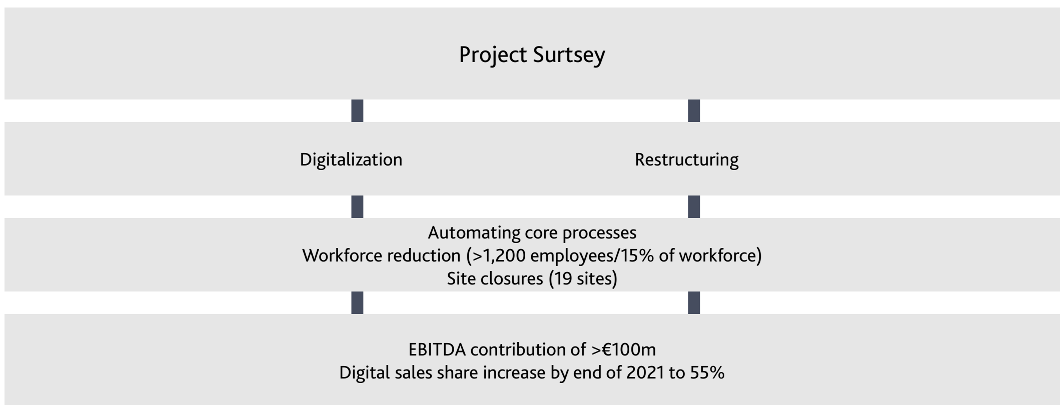
XOM eProcurement digitalizes materials procurement

Alongside the digital transformation of Klöckner & Co, in XOM Materials we have created a purely virtual platform company that also allows competitors to sell their products and services. Since last year, in addition to the Marketplace and eShops, the platform has also included the new XOM eProcurement solution. This helps buyers by greatly simplifying procurement and material requirements planning. It automatically matches buy and sell quantities, enabling direct contract negotiations, call-offs and access to current information on availabilities and orders. Using the application, XOM Materials customers – including in the US and Brazilian markets since the start of the year – can fully digitalize their procurement processes. This enables customers to gain valuable and previously concealed data-driven insights to further improve their procurement processes. Over the course of 2020, XOM Materials grew by over 1,300% on the prior year and exceeded a gross merchandise volume (GMV) of €140 million. A GMV of around €1 billion is planned for 2021.



The Surtsey project – accelerating the digital transformation

Over €100 million earnings contribution from the Surtsey project



We responded decisively to the COVID-19 crisis during the reporting period by launching the Surtsey project immediately after the outbreak of the pandemic. This takes advantage of the opportunities presented by the crisis while substantially accelerating our transformation into a platform company. As part of the project, we will close 19 smaller branches by the end of the fiscal year and reduce our workforce by a total of more than 1,200 employees (FTEs). Implementation of the measures is proceeding according to plan, with 16 sites already closed and the workforce reduced by around 1,000 as of January 2021.

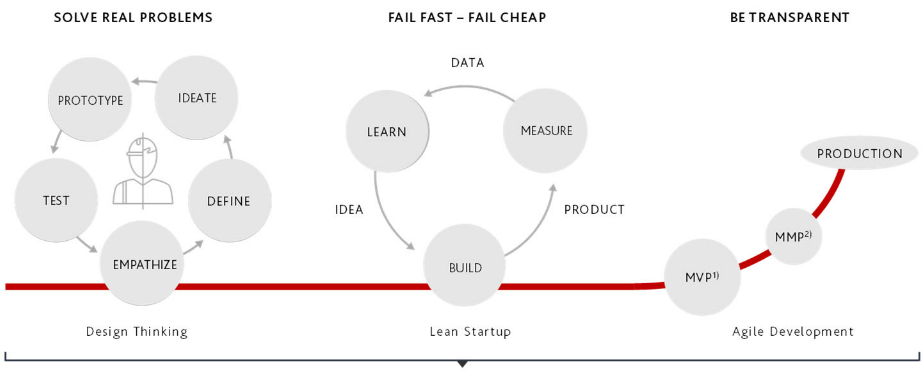
The restructuring expenses incurred for Surtsey in the past fiscal year will pay off in the long term through a considerably improved earnings situation and lower working capital. This optimized cost structure was already noticeable in the second half of 2020 and substantially reduced the negative earnings impact of the COVID-19 pandemic. We expect that the measures under the Surtsey project will contribute over €100 million to operating income. By the end of the current fiscal year, we will already be generating over 55% of Group sales via digital channels. This places us well on track to exceed our original target of 60% digitally generated sales in 2022. With higher profitability as a result of Surtsey and the increased digitalization level, we are paving the way for unlocking additional growth potential.

Our innovative way forward

Digital transformation with kloeckner.i

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

HOW WE WORK

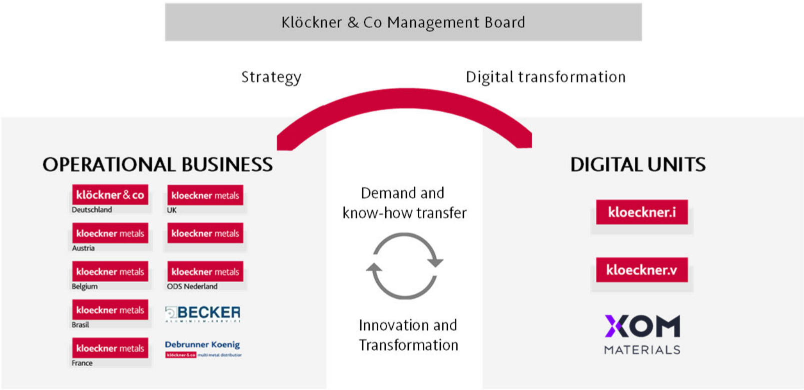


1) Minimal Viable Product.
2) Minimal Marketable Product

DIGITAL TRANSFORMATION AND CULTURAL CHANGE

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

DIGITAL ECOSYSTEM OF KLÖCKNER & CO



In addition to expanding our own digital services, Klöckner & Co also invests in start-ups capable of adding value to the onward refinement of our platforms and marketplaces and to the improvement of our operating processes. Investing in this way secures Klöckner & Co access to highly promising start-ups and ideas. We connect up with external start-ups via our venture capital entity, kloeckner.v. In the reporting period, we expanded our start-up network with additional investments totaling some €3 million in venture capital funds and a €2 million investment in tech start-up Keelvar Systems. Keelvar develops software solutions to automate and optimize procurement processes with AI-driven bots. The COVID-19 crisis in particular has shown that stable and efficient procurement processes are a key competitive advantage to which technological innovations can contribute significantly.

Cultural change as a key element

Cultural change is a necessary enabling factor for digital transformation

The digital transformation of our business is inseparably tied to fundamental cultural change within Klöckner & Co. Our employees understand our digitalization strategy and are adapting to the momentum it brings. We are working systematically to establish innovative working methods from the start-up scene in other parts of the Company, as well as fostering in-depth exchange between kloeckner.i and units in the various country organizations.

We are not leaving our employees to tackle this major change alone: both the Management Board and the management teams at our operating organizations communicate openly and across hierarchical lines on our transformation. In addition, online training is provided by the in-house Digital Academy to get our workforce in shape for the digital age and continuously build the organization's digital IQ. The courses are highly popular, with course registrations doubling to total over 9,000 in the reporting year.

New ideas, bold experimentation and the use of innovative communication channels are actively encouraged – for example, discussion in our internal social network, Yammer, and straightforward collaboration between subject-matter experts using Microsoft Teams. This promotes open, hierarchy-free dialog across country and divisional borders, which in turn generates motivation and inspires trust.]

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

1.4 Control system

Financial performance indicators

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

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

Shipments are a key performance indicator used in management of the distribution business. This indicator is used to monitor growth in the core business as well as to determine capacity utilization, which is important for planning personnel and machine resources. Under our strategy, we continue to enhance our business model with online and platform services, including for third parties. In line with this, our sales are expected to reach a higher level in the medium term, with reduced volatility. We are therefore constantly monitoring our sales and margin growth. The most significant KPI for results of operations is operating income (EBITDA), or, if there are material special effects (for example, restructuring programs or significant non-operating effects or effects relating to other periods), EBITDA before material special effects. The reconciliation of EBITDA before material special effects to EBITDA including material special effects is presented in section 2.6.

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

Other key figures

In addition to these primary key performance indicators, we also monitor other important KPIs. Gross profit is sales less cost of goods sold and is thus an indicator of the Company's value creation. In view of the time lag between the setting of procurement and selling prices, we closely monitor price trends in procurement markets as a supporting measure. Net financial debt (financial liabilities less cash and cash equivalents) is an important indicator in the financial management of the Company. Changes in net financial debt also reflect cash generated by the business. Capital markets also take net financial debt into account valuing our Company. For that reason, we constantly monitor gearing (net financial debt/equity), equity and the leverage ratio (net financial debt/EBITDA).

These key performance indicators are the basis of management processes and decision making at strategic and operating level, including for purposes such as investment and acquisition decisions. Changes in the key performance indicators are reported on in the "Results of operations, financial position and net assets" section.

Non-financial performance indicators

Focus on injury frequency rate

We believe that non-financial objectives are likewise critical to the Company's success. Accordingly, we give high priority to health and safety in the workplace. Initiatives we have adopted to this end include the Group-wide Safety 1st program. The measures aim to ensure safe working conditions as well as to reduce accidents at work and the costs they entail. Our key performance indicator for this purpose is the lost time injury frequency (LTIF). This is defined as the number of accidents/number of hours worked x 1,000,000. Our LTIF target for fiscal year 2021 is to reduce accident frequency to an LTIF value of less than or equal to 9.0 Group-wide.

2. Economic report

2.1 Macroeconomic conditions

Economic environment

Macroeconomic situation

Global GDP growth in 2020: – 3.5%

The global economy was heavily impacted in 2020 by the effects of the COVID-19 pandemic. In consequence of measures needed to slow the spread of the virus, large parts of the global economy were almost completely shut down. This massively impacted international value chains, manufacturing activity, labor markets and global trade. After the first COVID-19 lockdowns were eased in the summer, economic activity recovered significantly. The renewed and in some places more rapid spread of the pandemic towards the year-end partly slowed this momentum as many countries scaled their protective measures back up again. At the same time, successes were booked in the development and authorization of COVID-19 vaccines. In addition to the pandemic, the US presidential election and the threat of a hard Brexit in Europe led to a significant rise in uncertainty and adversely affected business confidence in the reporting period. According to estimates by the International Monetary Fund (IMF), the global economy contracted in 2020 by 3.5%.

The gross domestic product (GDP) in the eurozone fell according to the IMF by 7.2%. Economic output dropped sharply due to the massive impact of the pandemic on production and trade. Weak foreign demand and supply shortages, particularly of products from China, initially put pressure on export industries. A steep fall in private consumption subsequently led to a collapse in domestic demand. Government stimulus packages partly cushioned the negative impact of the COVID-19 pandemic, but newly implemented lockdowns at the beginning of winter once again slowed the pace of economic recovery.

In the United States, GDP went down by 3.4% year-on-year according to IMF estimates. The USA recorded the largest number of COVID-19 infections worldwide. The US services sector was hit particularly hard by the containment measures, but foreign trade also fell significantly. In the domestic economy, lockdowns to curb further infections caused a steep drop in private consumption and in investment, and drove a sharp rise in the number of unemployed. Severe strain on the oil markets, the long-undetermined outcome of the US presidential election and the ensuing political unrest made for additional uncertainty in the economy.

According to the IMF, China's economy grew by 2.3% in the reporting period despite the impacts of COVID-19. Rapid containment of the pandemic and early easing of public restrictions in the first half year helped economic activity return to positive growth. A strong revival in foreign demand enabled exports to recover from the deep setbacks at the beginning of the year. Government stimulus measures provided added support for infrastructure spending.

Development of GDP (in percent)	2020 vs. 2019
Europe*)	**– 7.2**
Germany	– 5.4
United Kingdom	– 10.0
France	– 9.0
Belgium	– 6.3
Netherlands	– 4.1
Switzerland	– 3.4
China	2.3
USA	**– 3.4**
Brazil	– 4.5

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

Global crude steel production down by 0.9%

Industry-specific situation
The COVID-19 pandemic also had a marked impact on Klöckner & Co's immediate market environment. According to the World Steel Association, global crude steel production fell by 0.9% year-on-year to 1,829 million tons. Production contracted by approximately 11.8% in the EU and 17.2% in the USA. Output in China rose by 5.2%. At the end of December 2020, analysts estimated that steel producers worldwide were operating at 79% capacity.

Capacity in Europe and the USA was scaled back over the course of the pandemic due to the sharp drop in demand. This led to a significant supply shortage. In combination with the marked recovery of the demand situation, steel prices rose very steeply at the end of the reporting year and beyond. The capacity that had been taken out of service is already gradually going back into production.

Steel production

(in million tons)	2020	2019	Variance
France	11.6	14.5	– 19.8%
Germany	35.7	39.6	– 10.0%
United Kingdom	7.2	7.2	– 0.5%
EU-28, total	**138.8**	**157.3**	**– 11.8%**
Rest of Europe	**38.8**	**37.3**	**3.9%**
C.I.S.	**101.8**	**100.2**	**1.5%**
United States	72.7	87.8	– 17.2%
Rest of North America	28.4	31.9	– 11.0%
North America total	**101.1**	**119.7**	**– 15.5%**
South America	**38.2**	**41.7**	**– 8.4%**
Africa	**12.6**	**14.0**	**– 10.1%**
Middle East	**40.7**	**39.7**	**2.7%**
China	1,053.0	1,001.3	5.2%
Rest of Asia	298.1	329.0	– 9.4%
Asia total	**1,351.1**	**1,330.3**	**1.6%**
Oceania	**6.1**	**6.2**	**– 1.4%**
Global	**1,829.1**	**1,846.4**	**– 0.9%**

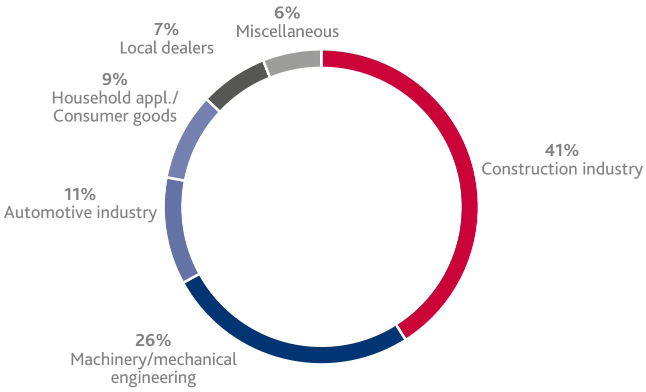
Source: World Steel Association (as of January 2021; preliminary figures for 2020).

2.2 Sector environment

CUSTOMER SECTORS OF KLÖCKNER & CO SE (BY SALES)

Klöckner & Co's highest revenue customer sector in the past fiscal year was the construction industry, accounting for 41% of sales, followed by machinery and mechanical engineering (26%) and the automotive industry (11%).

SALES BY CUSTOMER SECTOR



2.3 Trend in key customer industries

Construction industry

The construction industry is the largest processor of steel worldwide. Oxford Economics estimates that the European construction industry contracted by around 8%. It was thus less severely impacted by the effects of the COVID-19 pandemic than other steel-consuming industries and proved relatively resilient compared to sectors with more-complex supply chains and a stronger transregional focus. Positive factors included both infrastructure spending and the ongoing favorable borrowing environment. Construction output in the USA fell by around 3%. The commercial construction sector recorded a particularly sharp decrease. Activity was slowed down by declining business confidence and lower investment spending.

Machinery and mechanical engineering

Machinery and mechanical engineering, which already came under severe pressure in the prior year due to heightened market uncertainty, was hit hard by disruptions to its complex supply chains, production restrictions and the demand shock due to the COVID-19 pandemic. Oxford Economics estimates that manufacturing activity in the eurozone mechanical engineering industry fell in 2020 by around 12%. Mechanical engineering output in the USA likewise fell by around 7%. While business investment confidence rose slightly both in Europe and in the USA towards the end of the reporting period, capacity utilization was still at a low level.

Automotive industry

Partly because of its significant focus on the Asian market, the European automotive sector – which already faced structural problems before the outbreak of the COVID-19 virus – suffered particularly early and severely from the impacts of the pandemic. This temporarily resulted in an almost complete halt to production. Once international supply chains were restored, the second half of the year brought a very strong recovery in the automotive market. Unit sales in Europe during the reporting period were nevertheless approximately 24% down year on year. Sales on the US market were around 15% below the prior year's level. In China, robust domestic demand and early containment of the pandemic contributed to a faster recovery, with the number of automobiles sold down only about 6%.

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

Negative market trend due to the pandemic

Our guidance for the reporting period set out in the Annual Report 2019 was based on the assumption of slight growth in real steel demand in Europe and the USA, the two regions of importance to our business. However, the outbreak of COVID-19 in the reporting year and the ensuing restrictions caused a slump in the global economy and in real steel demand. On top of this, contrary to our expectations, steel prices fell sharply overall, although they picked up significantly especially in the final quarter of the fiscal year.

Due to the impacts of the COVID-19 pandemic, shipments were considerably lower at Group level and in all segments and totaled 4.9 million tons, in contrast with our start-of-year expectation of a slight increase for the Group and of stable to considerably improved performance for the segments.

Contrary to our forecast of stable sales, the sharp drop in volume combined with an overall lower selling price level likewise caused sales to decline considerably at Group level over the course of the year, to €5.1 billion. At the beginning of 2020, we were still expecting stable sales performance in the Kloeckner Metals US segment and a slight increase in the remaining segments. However, sales in all segments were considerably lower last year.

At Group level, EBITDA before material special effects fell considerably to €111 million. In our guidance at the beginning of last year, we were still expecting an economic recovery and a considerable increase in adjusted operating income for the Group and all segments. However, our earnings were heavily impacted by the collapse in demand as a result of the spread of COVID-19 and the accompanying country-specific containment measures. This resulted in a considerable decrease in EBITDA before material special effects at Group level and in the segments Kloeckner Metals Services Europe and Kloeckner Metals Distribution Europe. However, prompt counteraction and the launch of the Surtsey project significantly reduced the negative impacts of the pandemic on earnings. In the Kloeckner Metals US and Kloeckner Metals Switzerland segments, the negative effects were even outweighed, resulting in a considerable rise in EBITDA before material special effects in both segments as had been expected at the beginning of 2020.

After the very strong €204 million cash flow from operating activities in fiscal year 2019, we expected a considerable decline in all segments and consequently also at Group level for the reporting year. In line with our expectations, cash flow did indeed fall, but far less steeply than previously expected due to strict net working capital management and measures under the Surtsey project. Contrary to expectations, cash flow even showed a considerable increase in the Kloeckner Metals US segment. In total, cash flow from operating activities was €161 million at Group level in fiscal year 2020.

	Turnover (Tto)		Sales (€million)	
	Development 2020	Previous year's forecast for 2020	Development 2020	Previous year's forecast for 2020
Kloeckner Metals US	Considerable decrease	Considerable increase	Considerable decrease	Constant
Kloeckner Metals Switzerland	Considerable decrease	Slight increase	Considerable decrease	Slight increase
Kloeckner Metals Services Europe	Considerable decrease	Slight increase	Considerable decrease	Slight increase
Kloeckner Metals Distribution Europe	Considerable decrease	Constant	Considerable decrease	Slight increase
Group	**Considerable decrease**	**Slight increase**	**Considerable decrease**	**Constant**

	EBITDA before material special effects (€million)		Cash flow from operating activities (€million)	
	Development 2020	Previous year's forecast for 2020	Development 2020	Previous year's forecast for 2020
Kloeckner Metals US	Considerable increase	Considerable increase	Considerable increase	Considerable decrease
Kloeckner Metals Switzerland	Considerable increase	Considerable increase	Considerable decrease	Considerable decrease
Kloeckner Metals Services Europe	Considerable decrease	Considerable increase	Considerable decrease	Considerable decrease
Kloeckner Metals Distribution Europe	Considerable decrease	Considerable increase	Considerable decrease	Considerable decrease
Group	**Considerable decrease**	**Considerable increase**	**Considerable decrease**	**Considerable decrease**

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

2.5 Workplace injury frequency

We measure the frequency of workplace injuries using the key performance indicator of lost time injury frequency (LTIF). This is defined as the number of accidents/number of hours worked x 1,000,000. Our LTIF target is to reduce average accident frequency to an LTIF value of less than or equal to 9.0 across the Group in fiscal year 2021. In 2020, we achieved our annual target of less than or equal to 10.0 with an LTIF value of 9.7.

2.6 Results of operations, financial position and net assets

The most significant key performance indicators for our results of operations, financial position and net assets for fiscal year 2020 – as presented under "Control system" on page 40 – are set out in the following. The consolidated financial statements are prepared in euros. There may be discrepancies relative to the unrounded figures.

Effects of the COVID-19 pandemic
During the reporting period, the COVID-19 pandemic had a considerable influence on Klöckner & Co's business operations. The first effects on shipments were felt from mid-March, initially in consumer goods industries. As countries extended their measures to fight the pandemic, those effects peaked in April and May when customers temporarily shut down production, and supply and value chains broke down in virtually all sectors. On the demand side, the automotive and machinery and mechanical engineering industries were hit particularly hard, especially due to the international interconnectedness of their complex supply chains. The construction industry has also been impacted but to a lesser extent thanks to the regional nature of construction projects and the lower degree of complexity in their value chains. Our customers' heterogeneous industry mix was a critical factor in mitigating the negative effects of COVID-19 on the Group's business.

After the significant disruptions in the first half of the fiscal year, we recorded a marked recovery over the further course of the year, despite not regaining pre-pandemic levels. Whereas the construction industry stayed relatively resilient throughout the pandemic, the automotive industry experienced a sharp downturn in the second quarter followed by a substantial recovery in the second half of last fiscal year. Machinery and mechanical engineering improved only gradually in the second half but recovered at an increasing pace.

Klöckner & Co responded immediately to the challenges posed by the crisis. Besides implementing emergency plans, we transferred a large proportion of activities to remote working in order to protect the health of our employees. The advanced digitalization of our IT infrastructure proved to be a competitive advantage in this regard. Hygiene measures introduced at our logistics facilities also meant that shipments could continue without disruption. In all, this enabled 90% of Klöckner & Co branches to remain operational, even at the peak of the crisis. Only in France and Brazil did we temporarily close some branches at this time. Moreover, short-time work or furlough programs were introduced at times in some countries to mitigate the negative effects of the COVID-19 pandemic. The Group claimed no state aid other than for such programs, aside from temporary tax deferrals.

MOST SIGNIFICANT KEY PERFORMANCE INDICATORS ACCORDING TO GAS 20

(€ million)	2020	2019	Variance	
Shipments (Tto)	4,873	5,648	– 775	– 13.7%
Sales	5,130	6,315	– 1,185	– 18.8%
EBITDA before material special effects*)	111	124	– 13	– 10.3%
EBITDA	52	139	– 87	– 62.3%
Cash flow from operating activities	161	204	– 43	– 21.2%

*) 2020: Restructuring expenses (€59 million) mainly in connection with Surtsey project.
2019: Restructuring expenses (€27 million), income from sale of a property in London (€36 million) and a property in Switzerland (€7 million).

OTHER KEY PERFORMANCE INDICATORS

(€ million)	2020	2019	Variance	
Gross profit	1,047	1,158	– 111	– 9.5%
Gross profit margin	20.4%	18.3%		
OPEX*)	– 995	– 1,017	22	2.2%
EBIT**)	– 93	2	– 95	n.a.
EBT	– 124	– 39	– 85	n.a.
Net income	– 114	– 55	– 59	n.a.
Net financial debt	351	445	– 94	– 21.1%
Gearing (Net financial debt / shareholders' equity***))	34%	38%		– 4%p
Leverage (Net financial debt / EBITDA before material special effects)	3.2x	3.6x		– 0.4

*) OPEX = Own work capitalized plus other operating income less personnel expenses less other operating expenses.
**) Includes impairments in the amount of €14 million (2019: €4 million).
***) Consolidated equity less non-controlling interests and less goodwill from business combinations subsequent to May 23, 2019.

Shipments and sales

Shipments totaled 4.9 million tons in fiscal year 2020, marking a decline of 13.7% relative to the prior-year period. The fall in shipments was mainly due to the COVID-19 pandemic. It cut across all operating segments, with the business in Switzerland comparatively less affected.

SALES BY SEGMENTS

			Variance			
(€ million)	2020	2019	Total	Currency effects	Net of currency effects	
Kloeckner Metals US	2,076	2,659	– 583	– 50	– 533	– 20.0%
Kloeckner Metals Switzerland	914	971	– 57	34	– 91	– 9.4%
Kloeckner Metals Services Europe	607	749	– 142	-	– 142	– 19.0%
Kloeckner Metals Distribution Europe	1,533	1,936	– 403	– 2	– 401	– 20.7%
Group sales	**5,130**	**6,315**	**– 1,185**	**– 18**	**– 1,167**	**– 18.5%**

Decrease in sales larger than fall in shipments

Group sales fell by 18.8% (currency-adjusted: 18.5%) to €5.1 billion. Here again, the COVID-19 pandemic was the main driver, particularly in the second quarter.

Sales in the Kloeckner Metals US segment showed a correspondingly large shortfall of 20.0% (currency-adjusted), additionally compounded by the adverse trend in the oil industry. However, the remaining operating segments also recorded considerable sales losses. Alongside the pandemic, the weakness of the automotive industry at the beginning of the year was a major factor in the sales shortfall (by 19.0%) in the Kloeckner Metals Services Europe segment. Sales were likewise down in the Kloeckner Metals Distribution Europe segment, at 20.7% below their prior-year level. Despite the pandemic, the Kloeckner Metals Switzerland segment showed a comparatively moderate sales decrease of 9.4% (currency-adjusted).

GROSS PROFIT SIGNIFICANTLY DOWN

At €1,047 million, gross profit was considerably below the prior-year level (2019: €1,158 million). Here, too, the COVID-19 pandemic was the main driver of the decline. Given that procurement prices – and hence also at-market inventory prices – decreased more than selling prices, but also due to our exit from low-margin business, the gross profit margin improved from 18.3% in the prior year to 20.4%.

OPEX

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

			Variance			
(€ million)	2020	2019	Total	Currency effects	Net of currency effects	
Other own work capitalized	2	2	-	-	-	n.a.
Other operating income	21	76	– 55	-	– 55	– 71.9%
Personnel expenses	– 600	– 627	27	-	27	4.3%
Other operating expenses	– 418	– 469	51	1	50	10.7%
Impairment losses of trade receivables	-	1	– 1	-	– 1	n.a.
OPEX	**– 995**	**– 1,017**	**22**	**1**	**21**	**2.1%**

Comparability of OPEX with the prior year is possible only to a limited extent due to special effects.

Other operating income, at €21 million, was €55 million lower than in the prior year. The prior-year figure includes €36 million in non-recurring income from the sale of a property in London and €7 million from the sale of a property in Switzerland.

Personnel expenses dropped from €627 million to €600 million. This includes €47 million in redundancy plan expenses from restructuring measures as part of the Surtsey project, compared with only €24 million in such expenses incurred in the comparative period. Personnel expenses were reduced by payments under short-time work programs or similar measures in the amount of €5 million.

Other operating expenses fell from €469 million to €418 million. The other operating expenses figure likewise includes expenses for the Surtsey project associated with site closures (€7 million). By contrast, warehousing and transportation expenses in particular decreased considerably during the COVID-19 crisis.

In total, at €52 million, EBITDA was consequently considerably below the prior-year figure of €139 million.

GROSS PROFIT AND ADJUSTED EBITDA BY SEGMENT

(€ million)	2020 Gross profit	2020 Gross profit margin	2019 Gross profit	2019 Gross profit margin
Kloeckner Metals US	374	18.0%	415	15.6%
Kloeckner Metals Switzerland	268	29.3%	270	27.8%
Kloeckner Metals Services Europe	83	13.8%	100	13.3%
Kloeckner Metals Distribution Europe	322	21.0%	373	19.2%
Klöckner & Co Group	**1,047**	**20.4%**	**1,158**	**18.3%**

(€ million)	2020 EBITDA	2020 EBITDA margin	2019 EBITDA	2019 EBITDA margin
Kloeckner Metals US	50	2.4%	45	1.7%
Kloeckner Metals Switzerland	62	6.8%	55	5.7%
Kloeckner Metals Services Europe	19	3.1%	26	3.4%
Kloeckner Metals Distribution Europe	7	0.4%	22	1.2%
Holding and other group companies	– 27	-	– 24	-
EBITDA before material special effects	**111**	**2.2%**	**124**	**2.0%**
Net adjustments	– 59	-	15	-
Klöckner & Co Group	**52**	**1.0%**	**139**	**2.2%**

Adjusted EBITDA can be reconciled to EBITDA before adjustments as follows:

(€ million)	2020	2019
EBITDA including material special effects	**52**	**139**
Restructuring related inventory devaluation	5	-
Material property disposal gains	-	– 43
Restructuring expenses		
– Personnel expenses	47	24
– Other restructuring expenses	7	4
EBITDA before material special effects	**111**	**124**

Marked negative gross profit performance in operating segments

In the Kloeckner Metals US segment, gross profit fell considerably to €374 million (2019: €415 million). This was due to reduced demand because of disruptions resulting from the COVID-19 pandemic and to the weak performance of the oil industry in the reporting year. However, the gross profit shortfalls were more than offset by the cost-cutting measures launched by the Surtsey project, as a result of which EBITDA increased from €45 million to €50 million.

Gross profit in the Kloeckner Metals Switzerland segment went down slightly from €270 million to €268 million (currency-adjusted decrease: €12 million). The segment's EBITDA, on the other hand, went up from €55 million in the prior year to €62 million. We benefited here from lower OPEX.

In addition to the negative impacts of COVID-19, the economic environment for the Kloeckner Metals Services Europe segment also remained challenging due to the sustained weak demand in the automotive sector, with adjusted gross profit falling as a result from €100 million to €83 million. The shortfall was partly offset by a €10 million decrease in OPEX. Consequently, EBITDA fell from €26 million to €19 million.

At €322 million, gross profit in the Kloeckner Metals Distribution Europe segment was considerably down on the €373 million prior-year figure. This, too, was due to the fall in demand on account of the COVID-19 pandemic. Adjusted EBITDA, on the other hand, decreased by only €15 million to €7 million. Significantly reduced OPEX due to site closures and other initiatives under Surtsey, along with short-time work allowance and similar measures under COVID-19, substantially offset the considerable decline in gross profit.

Adjusted EBITDA at the holding company and the other Group companies was a negative €27 million (2019: negative €24 million).

RECONCILIATION TO NET INCOME

(€ million)	2020	2019	Variance	
EBITDA	**52**	**139**	**– 87**	**– 62.3%**
Depreciation, amortization and impairments	– 146	– 137	– 9	– 6.2%
EBIT	**– 93**	**2**	**– 95**	**n.a.**
Financial result	– 30	– 41	11	25.2%
EBT	**– 124**	**– 39**	**– 85**	**n.a.**
Income taxes	9	– 16	25	n.a.
Net income	**– 114**	**– 55**	**– 59**	**n.a.**

Depreciation and amortization, at €146 million, was higher than the prior-year figure of €137 million, mainly due to the €14 million in impairments recognized predominantly as part of the Surtsey project.

Higher depreciation and amortization due to impairments

EBIT was consequently a negative €93 million (2019: positive €2 million). The improvement in financial results is primarily due to the significantly lower average debt level over the course of the year.

EBT was a negative €124 million, compared with a negative €39 million in the prior-year period. The income tax item for 2020 shows tax income of €9 million (2019: tax expense of €16 million). The relatively small tax income amount compared with the negative EBT is due to the lack of a cross-border loss offset as well as to impairments on or non-recognition of deferred tax assets and temporary differences.

The bottom line comprises negative net income of €114 million, compared with a negative €55 million in the prior year.

Net income at €–114 million

Basic earnings per share came to negative €1.16, compared with negative €0.56 in the prior year.

Cash flows, financing and liquidity

Financing and financial management

Group financing is centrally managed through Klöckner & Co SE. We secure the liquidity of our Group companies in intra-Group liquidity balancing arrangements with central and bilateral credit facilities. In the eurozone, a cross-border cash pooling system is used for this purpose. Centralized financing strengthens our negotiating position with banks and other lenders, making it easier to implement a uniform finance policy and limit financing risk.

By diversifying our financing instruments, we were highly successful at meeting the challenges in the financing environment caused by the COVID-19 pandemic. We have ample financial flexibility that we maintain in any case due to our business model and were not forced to obtain under crisis conditions. With a portfolio totaling some €1.3 billion, we are very solidly positioned, including with regard to contract terms and financial covenants.

Financing for the Group continues to be secured using a portfolio of funding instruments comprising a convertible bond issue, an ABS program, a syndicated loan, an asset-based lending facility and bilateral loan agreements.

Syndicated loan

A central component of Group financing is our syndicated loan (a revolving credit facility) with a facility amount of €300 million.

Syndicated loan extended early to May 2023 in amend and extend process

In April, our syndicated loan was extended in the amount of €278 million ahead of term by one year to May 2023 in an extend process; €22 million remains due in May 2022. This further improved the maturity profile of Klöckner & Co's Group finances. The facility is provided, as before, by a syndicate of nine banks. Under the financial covenants, gearing – defined as net financial debt divided by the book value of equity less non-controlling interests and less goodwill resulting from acquisitions after May 23, 2019 – may not exceed 165%. Hence, the adjusted book value of equity may not fall below €600 million (minimum equity). Breach of the financial covenants would require repayment of all outstanding amounts. Subsequent drawings would then be possible if the covenants were once again complied with. Throughout fiscal year 2020, the Group consistently complied with all loan terms, including the financial covenants.

ASSET-BACKED SECURITIZATION PROGRAMS

Long-term ABS program with a volume of €220 million in Europe

Since July 2005, the Klöckner & Co Group has operated a European ABS program. In October 2020, the European ABS program was renewed ahead of schedule on improved terms until November 2023. The size of the program was modified from €300 million to €220 million. This reflects the lower future working capital funding requirement as a result of the Surtsey project. The agreed covenants are also based on the statement of financial position and are equivalent to those for the syndicated loan.

Utilization of the program totaled €112 million as of the reporting date. The covenants were complied with throughout the reporting period.

A USD 275 million ABS program previously in place in the USA was terminated in November 2020. US receivables were included in the collateral pool under the new borrowing base (ABL) facility set up in November 2020.

Convertible bond

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

Convertible bond with a volume of €148 million

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

BILATERAL CREDIT FACILITIES AND ASSET-BASED LENDING

The bilateral credit facilities in an amount of approximately €436 million, excluding leases, were around 20% drawn (excluding lease liabilities) at the end of 2020.

Most of this is accounted for by the borrowing base (ABL) facility newly arranged at the US country organization in November 2020, which replaced the previous standalone ABS and ABL facilities. The new ABL facility matures in March 2024 and is provided by three banks. The facility amount, which previously totaled USD 550 million (USD 275 million ABS and USD 275 million ABL), was reduced to USD 330 million (around €270 million). This reflects lower future working capital funding requirements as a result of the Surtsey project.

Borrowing base facility with a volume of USD 330 million in the USA

Also included are our bilateral credit lines in Switzerland totaling CHF 147 million (around €136 million), drawings on which totalled only €15 million as of December 31, 2020. The Group has additional bilateral borrowings at its disposal from the country organizations, which are used, among other things, to finance net working capital.

LIQUIDITY MANAGEMENT AND INTER-COMPANY SETTLEMENTS

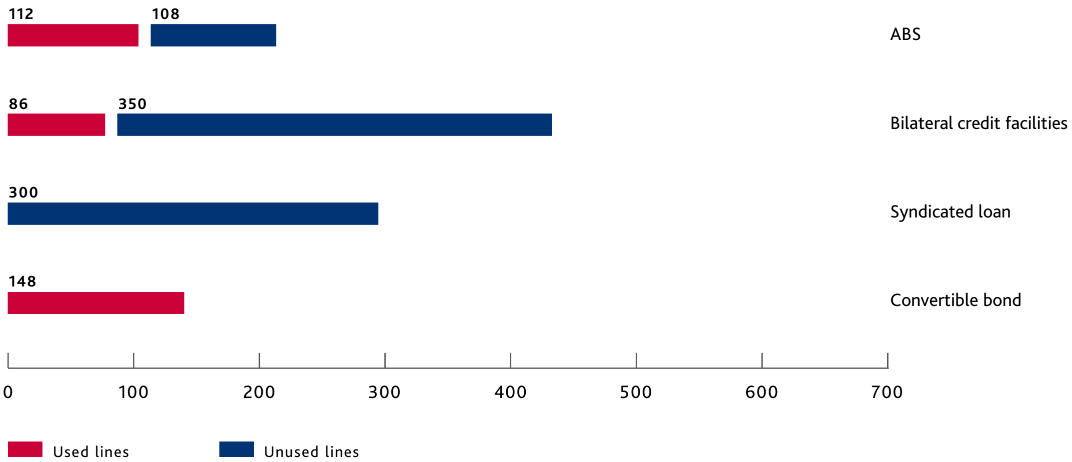
The Group uses an international cash pooling system to handle inter-company settlements and manage liquidity. Our country organizations in Switzerland, the United Kingdom and the USA are not part of the cash pooling system as they are financed by intra-Group loans or have their own credit facilities. Financing of our Group companies, including working capital for the operating business at the individual country organizations, was secure at all times throughout 2020. Our liquidity situation was also strengthened by reducing working capital, especially in the first months of the COVID-19 pandemic. This aided in the renewal of our financing instruments, which we successfully completed in the fall.

Financial headroom remains ample at €1.1 billion

FINANCIAL HEADROOM AND NET FINANCIAL DEBT

Klöckner & Co maintains credit facilities, excluding lease liabilities, totaling approximately €1.1 billion. As shown in the following table, drawings on these facilities totaled only around €0.3 billion as of December 31, 2020.

FINANCIAL VOLUME
(€ million)



December 31, 2020

LEASING

Financial liabilities include lease liabilities in the amount of €180 million (2019: €205 million).

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

NET FINANCIAL DEBT

(€ million)	December 31, 2020	December 31, 2019	Variance			
			Total	Currency effects	Net of currency effects	
Net financial debt	351	445	– 94	– 10	– 84	– 18.8%
Gearing (Net financial debt / shareholders' equity*))	34%	38%	– 4%p			
Leverage (Net financial debt / EBITDA before material special effects)	3.2x	3.6x	– 0.4			

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

Gearing 34%, leverage 3.2x

Gearing was 34% as of the fiscal year-end, well within the 165% limit under the syndicated loan and the European ABS program. Leverage declined from 3.6x to 3.2x as a result of the largely pandemic-induced fall in EBITDA.

Klöckner & Co's operating business entails interest-rate, currency and credit risk. The instruments used to hedge and manage such risks and their potential impact on earnings are described in detail in the notes to the consolidated financial statements, under the notes on financial instruments.

We safeguard liquidity through rigorous inventory and receivables management as well as by adhering to internally defined indicators. Financial risk management is governed by Group-wide financial guidelines. We use derivative financial instruments to hedge interest-rate and currency risk. Derivatives are used exclusively to hedge risk related to underlying transactions. Foreign currency exposure at Group companies is generally hedged against currency risk at corporate level, or, where applicable, via local forex trading lines with banks that have impeccable credit ratings. We also centrally monitor and hedge any interest-rate risk.

CASH FLOW ANALYSIS

The consolidated statement of cash flows shows the sources and uses of cash flows during the fiscal year. The full consolidated statement of cash flows is presented on page 152 as part of the consolidated financial statements. Cash and cash equivalents reported in the consolidated statement of cash flows correspond to cash and cash equivalents shown in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

(€ million)	2020	2019	Variance	
Cash flow from operating activities	161	204	– 43	– 21.2%
Cash flow from investing activities	– 62	3	– 65	n.a.
Free Cash flow	**99**	**207**	**– 108**	**– 52.3%**
Cash flow from financing activities	– 104	– 169	65	38.2%

Despite lower operating income, strong positive cash flow from operating activities due to strict net working capital management

Due to the strict net working capital management and lower volumes as a result of the COVID-19 pandemic, which released €116 million in funds, a strong positive cash flow from operating activities in the amount of €161 million (2019: €204 million) was generated despite the considerably lower operating income.

Investing activities resulted in a net cash outflow of €62 million in fiscal year 2020 (2019: net cash inflow €3 million). In the year under review, proceeds of €19 million were generated from the disposal of property, plant and equipment and financial assets. Payments for intangible assets, property, plant and equipment totaled €76 million (2019: €49 million).

Capital expenditure by segment was as follows:

(€ million)	2020	2019
Kloeckner Metals US	18	12
Kloeckner Metals Switzerland	20	16
Kloeckner Metals Services Europe	5	4
Kloeckner Metals Distribution Europe	31	12
Holding and other group companies	7	8
Klöckner & Co-Group	**81**	**52**

Free cash flow once again significantly positive

Accordingly, free cash flow came to €99 million, compared with €207 million in the prior year.

Cash flow from financing activities was a negative €104 million (2019: negative €169 million) and includes cash outflows of €46 million (2019: €46 million) in repayments of lease liabilities and €76 million (2019: €85 million) in net repayment of other financial liabilities. Furthermore, cash flow from financing activities also includes €18 million (2019: €6 million) in payments relating to extensions and settlements of currency hedges as part of the Group headquarters financing arrangements.

FINANCIAL POSITION AND BALANCE SHEET STRUCTURE

Consolidated balance sheet (€ million)	December 31, 2020	December 31, 2019	Variance Total	Currency effects	Net of currency effects	
Non-current assets	932	968	– 36	– 27	– 9	– 0.9%
Current assets						
Inventories	856	1,043	– 187	– 33	– 154	– 14.8%
Trade receivables*)	586	675	– 89	– 25	– 64	– 9.4%
Other current assets	66	47	19	15	4	5.5%
Liquid funds	173	183	– 10	– 4	– 6	– 3.0%
Total assets	**2,613**	**2,916**	**– 303**	**– 74**	**– 229**	**– 7.9%**
Equity	1,043	1,182	– 139	– 27	– 112	– 9.4%
Non-current liabilities						
Financial liabilities	334	564	– 230	– 14	– 216	– 38.4%
Provisions for pensions	288	285	3	– 4	7	2.4%
Other non–current liabilities	61	60	1	– 1	2	4.3%
Current liabilities						
Financial liabilities	187	61	126	– 1	127	n.a.
Trade payables	475	599	– 124	– 24	– 100	– 16.8%
Other current liabilities	225	165	60	– 3	63	38.1%
Total equity and liabilities	**2,613**	**2,916**	**– 303**	**– 74**	**– 229**	**– 7.9%**

*) including contract assets and supplier bonus receivables.

Total assets at €2.6 billion; on a currency-adjusted basis 7.9% down on prior year

Total assets stood at €2.6 billion as of December 31, 2020 and thus showed a decrease on the prior year (€2.9 billion). It should be taken into account in the analysis that the change in balance sheet items includes currency translation effects relating to our international subsidiaries – for the most part our US activities. Adjusted for currency translation, total assets were 7.9% down on the prior year. Non-current assets, at €932 million, were below the level of the prior year (€968 million). While property, plant and equipment and intangible assets decreased by a total of €80 million, other non-current assets increased by €44 million.

Additions from capital expenditure on property, plant and equipment (€67 million) and additions from new and renewed leases (€31 million) were offset by depreciation and amortization in the amount of €105 million, impairments predominantly relating to site closures as part of the Surtsey project (€14 million) and disposals in the amount of €6 million. Conversely, intangible assets went down from €131 million to €109 million, mostly due to amortization.

The increase in other non-current assets is mainly due to an increase in the surplus of plan assets over pension obligations (€40 million).

While the optimization and restructuring measures undertaken are already delivering significant contributions to earnings, the Kloeckner Metals Distribution Europe segment continues to face a challenging economic environment. Consequently, the carrying amounts of the cash-generating units in the UK, in France, in the steel distribution business in the Netherlands and (except for Becker Stahl-Service GmbH) in Germany, as before, are not matched by their value in use as defined in IAS 36. Detailed information on this is provided in Note 15 ("Intangible assets and property, plant and equipment").

Net working capital changed as follows:

NET WORKING CAPITAL

(€ million)	December 31, 2020	December 31, 2019	Variance			
			Total	Currency effects	Net of currency effects	
Inventories	856	1,043	– 187	– 33	– 154	– 14.8%
Trade receivables*)	586	675	– 89	– 25	– 64	– 9.4%
Trade payables	– 475	– 599	124	24	100	16.8%
Net working capital	**967**	**1,119**	**– 152**	**– 34**	**– 118**	**– 10.5%**

*) including contract assets and supplier bonus receivables.

Net working capital was €967 million as of December 31, 2020, compared with €1,119 million a year earlier. On a currency-adjusted basis, extremely strict net working capital management led to a reduction of €118 million or 11%.

Cash and cash equivalents, at €173 million, were slightly down on their prior-year level of €183 million.

Equity decreased from €1,182 million to €1,043 million, mainly due to the negative net income (€114 million) and the losses on the translation of foreign subsidiary financial statements (€28 million).

The equity ratio is a solid 40%, broadly unchanged compared with the prior year.

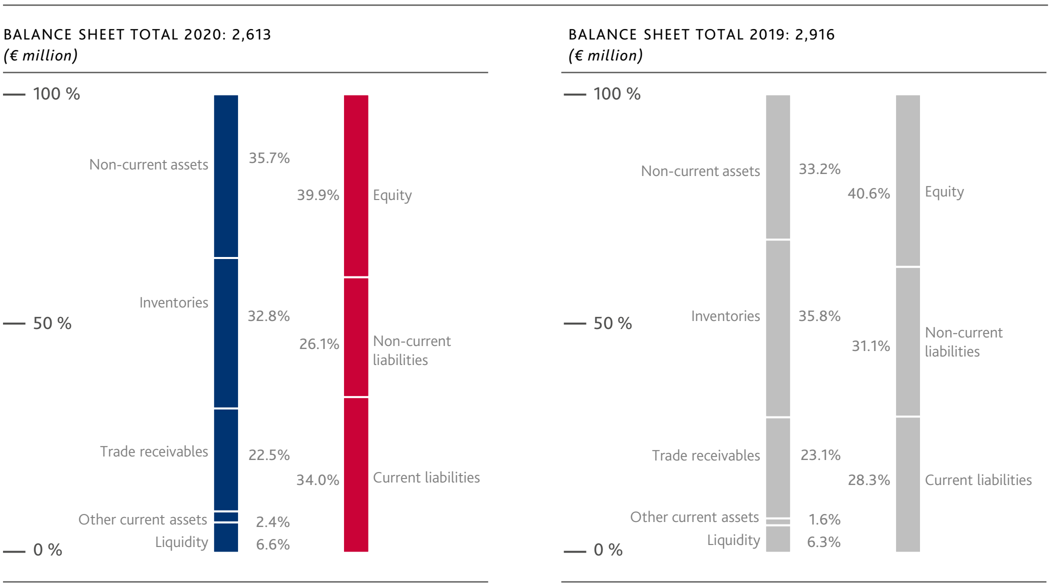
Equity ratio of 40% roughly at prior-year level

The excess of equity and non-current liabilities over non-current assets amounted to €794 million, compared with €1,123 million in 2019.

Due to the reduction in net working capital, financial liabilities, at €521 million, were a considerable €104 million below the prior-year figure of €625 million. They include €111 million in drawings under the ABS program, €146 million for the debt component of the convertible bond issue and €84 million in bilateral facilities. The remaining amount of €180 million relates to lease liabilities. The syndicated loan was undrawn as of year-end.

Financial liabilities thanks to strict NWC management significantly below prior year

Pension provisions amounted to €288 million, approximately the same as the prior-year figure (€285 million).



2.7 Overall assessment of the business situation

COVID-19 pandemic drives fall in operating income; Surtsey project accelerates transformation

The Klöckner & Co Group's operating income (EBITDA) was considerably reduced in fiscal year 2020 due to COVID-19. Demand, impacted by the pandemic, was the main driver of the fall in earnings. The Group responded promptly by launching the Surtsey project to take advantage of opportunities presented by the crisis, accelerate its transformation into a platform company and reduce costs. While this incurred one-time expenses that affected earnings, Group profitability will improve significantly and sustainably.

The fall in operating income resulted in a net loss in 2020.

Solid finances and financial position

Our finances remain very stable, including during the COVID-19 pandemic. Financing for the Group continues to be based on a widely diversified portfolio of funding instruments. We were able to maintain and enhance the quality of our large financial headroom in the fiscal year by means of extensions and the arrangement of new financing. The equity ratio remains very solid at approximately 40% as of the year-end.

Substantial positive cash flow

Due to very strict working capital management in the course of the year, cash flow from operating activities was substantialy positive despite the negative net income.

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

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

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

BALANCE SHEET OF KLÖCKNER & CO SE (CONDENSED)

(€ million)	December 31, 2020	December 31, 2019	Variance	
Intangible assets and property, plant & equipment	2	3	– 1	– 22.7%
Non-current investments	1,178	1,084	94	8.6%
Fixed assets	**1,180**	**1,087**	**93**	**8.6%**
Receivables from affiliated companies	126	215	– 89	– 41.4%
Other receivables	3	3	-	-
Cash and cash equivalents	88	56	32	56.7%
Current assets	**217**	**274**	**– 57**	**– 20.9%**
Prepaid expenses	4	8	– 4	– 44.4%
Total assets	**1,401**	**1,369**	**32**	**2.3%**
Equity	**1,093**	**1,099**	**– 6**	**– 0.6%**
Provisions for pensions and similar obligations	95	96	– 1	– 1.1%
Other provisions	12	11	1	14.1%
Bonds	148	148	-	-
Liabilities to affiliated companies	50	13	37	n.a.
Other current liabilities	3	2	1	44.7%
Total equity and liabilities	**1,401**	**1,369**	**32**	**2.3%**

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

Financial position reflects holding company status

Klöckner & Co SE's financial position reflects its status as holding company and its function as the Group's central financing company. The opportunities and risks of Klöckner & Co SE correspond to those of the Group and primarily impact the carrying amounts of investments and future dividend payout potential. The Company's fixed assets consist almost entirely of financial assets. These mostly comprise the investments in management companies heading the Group's national and international country organizations, investments in individual country operating organizations and long-term loans to those companies.

The increase in financial assets is primarily due to the reversal, in the amount of €33 million, of impairment losses recognized in the past on the carrying amount of the investment in Klöckner & Co Deutschland GmbH, Duisburg, Germany. The reversal reflects considerably improved earnings prospects as a result of the Surtsey project. Similarly, there was a €21 million reversal of the (€35 million) prior-year impairment loss on the carrying amount of the investment in Klöckner Netherlands Holding B.V., Amsterdam, the Netherlands.

In addition, a €54 million capital increase was carried out to strengthen the equity base of our subsidiary Kloeckner Metals France Holding S.A.S, Aubervilliers, France, on which a €14 million impairment loss was recognized against the fair value of €40 million.

A €27 million capital increase was carried out to improve equity capitalization at Kloeckner Metals UK Holdings Limited, Leeds, United Kingdom. Due to the company's limited profitability, the amount was written off in full.

Klöckner & Co SE's equity ratio was 78% as of December 31, 2020 (2019: 80%).

INCOME STATEMENT OF KLÖCKNER & CO SE (CONDENSED)

(€ million)	2020	2019	Variance	
Revenues	14	17	– 3	– 17.7%
Other income	59	4	55	n.a.
Cost of purchased services	– 9	– 11	2	11.9%
Personnel expenses	– 22	– 30	8	27.5%
Depreciation and amortization	– 1	– 1	-	3.0%
Other operating expenses	– 13	– 14	1	14.2%
Impairments of investments	– 41	– 83	42	50.3%
Income from investments	6	9	– 3	– 33.5%
Interest income, net	1	2	– 1	n.a.
Result from ordinary activities	**– 6**	**– 107**	**101**	**93.9%**
Taxes	-	-	-	n.a.
Net loss	**– 6**	**– 107**	**101**	**94.1%**
Retained profit prior year	-	30	– 30	n.a.
Withdrawals from capital reserves	6	107	– 101	n.a.
Dividends	-	– 30	30	n.a.
Unappropriated profits	**-**	**-**	**-**	**n.a.**

Sales mainly comprise services for Group companies.

The decrease in cost of purchased services principally relates to lower expenses in connection with outsourced accounting activities.

The increase in other operating income is mainly due to reversals of past impairment losses on the carrying amount of the investment in Klöckner & Co Deutschland GmbH, Duisburg, Germany (€33 million) and reversals of past impairment losses on the carrying amount of Klöckner Netherlands Holding B.V., Amsterdam, the Netherlands (€21 million).

In the analysis of personnel expenses, it should be noted that the previous year's figure was affected by severance payments and redundancy costs of €8 million in connection with a reduction in the workforce.

Other operating expenses remained more or less unchanged at €13 million (2019: €14 million).

Impairment losses totaling €41 million (2019: €83 million) were recognized in the reporting year on the carrying amounts of the investments in Kloeckner Metals France Holding S.A.S, Aubervilliers, France and Kloeckner Metals UK Holdings Limited, Leeds, United Kingdom.

Investment income at Klöckner & Co SE consists of profit distributions and profit transfers from subsidiaries. Income from profit transfer agreements mainly related to Becker Besitz GmbH, Duisburg, Germany and Klöckner Shared Services GmbH, Duisburg, Germany. The dividend income related to Debrunner Koenig Holding AG, St. Gallen, Switzerland. In 2020, the figure additionally included assumed losses, largely relating to Klöckner & Co Deutschland GmbH, Duisburg, Germany and Becker Stahl-Service GmbH, Duisburg, Germany.

Overall, there was consequently a net loss of €6 million in 2020 (2019: €107 million).

As a holding company, the earnings performance of Klöckner & Co SE is materially determined by the performance and dividend policies of its holdings. Contrary to the prior-year expectation of a positive net income in the lower double digit million € range, the Company generated a loss of €6 million. This was mainly due to the aforementioned impairment losses recognized on the carrying amounts of investments.

In light of the potential for distribution of reinvested profits at subsidiaries and the profit transfer agreements we have in place, we expect to be back in positive figures with net income in 2021 in the lower double-digit million € range.

Due to the net loss, the Management Board and Supervisory Board will propose to the Annual General Meeting that no dividend be paid for fiscal year 2020.

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

4. Other disclosures

4.1 Dependency report

Closing statement on the report of the Management Board on relations with affiliated companies pursuant to Section 312 of the German Stock Corporation Act

In fiscal year 2020, for the first time, Klöckner & Co SE was a dependent company of SWOCTEM GmbH, Haiger, within the meaning of Section 312 of the German Stock Corporation Act. Pursuant to Section 312 of the German Stock Corporation Act, the Management Board of Klöckner & Co SE has therefore prepared a report of the Management Board on relations with affiliated companies, which contains the following closing statement:

"We declare that with regard to the transactions and measures listed in the report on relations with affiliated companies for the period January 1, 2020 to December 31, 2020, based on the circumstances known to us when the transactions were carried out or the measures were taken or omitted, the Company received appropriate compensation in each transaction and was not disadvantaged by measures taken or omitted."

4.2 Takeover disclosures

Disclosures pursuant to Sections 289a (1) and 315a (1) of the German Commercial Code in conjunction with Section 176 (1) sentence 1 of the German Stock Corporation Act and Article 9(1)(c)(ii) of the European Company Regulation

COMPOSITION OF SUBSCRIBED CAPITAL

As of December 31, 2020, Klöckner & Co SE's subscribed capital totaled €249,375,000, divided into 99,750,000 registered, no-par-value shares. All shares carry the same rights and obligations. Each share has one vote.

RESTRICTIONS ON VOTING RIGHTS AND THE TRANSFER OF SHARES

The Management Board is not aware of any restrictions on voting rights or the transfer of shares, including any agreements between shareholders. However, the members of the Management Board are subject to a vesting period before selling their personal investment shares.

INTERESTS IN SHARE CAPITAL EXCEEDING 10% OF VOTING RIGHTS

As of December 31, 2020, the following direct or indirect interests in the share capital of Klöckner & Co SE exceeding 10% of the voting rights were reported to the Company in accordance with the German Securities Trading Act (WpHG): SWOCTEM GmbH (Prof. Friedhelm Loh), Haiger, 25.25% as of February 2, 2016.

SHARES WITH SPECIAL CONTROL RIGHTS

No shares with special control rights exist.

EXERCISE OF VOTING RIGHTS BY EMPLOYEES OWNING SHARES IN THE COMPANY

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

LEGISLATION AND PROVISIONS OF THE ARTICLES OF ASSOCIATION GOVERNING THE APPOINTMENT AND DISMISSAL OF MEMBERS OF THE MANAGEMENT BOARD AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Management Board of Klöckner & Co SE comprises one or more members who are appointed and dismissed by the Supervisory Board as stipulated by Article 9 (1) (c), Article 39 (2) and Article 46 of the European Company Regulation, Sections 84 and 85 of the German Stock Corporation Act and Section 6 of the Company's Articles of Association. Under Article 59 (1) of the European Company Regulation, amendments to the Articles of Association require, in priciple, a two-thirds majority of the votes cast unless the German Stock Corporation Act requires or permits a greater majority. Pursuant to Article 59(2) of the European Company Regulation and Section 51, sentence 1 of the German SE Implementation Act (SEAG) in conjunction with Section 19 (2) sentence 2 of the Articles of Association of Klöckner & Co SE, amendments may be adopted by a simple majority of votes cast provided at least one half of the share capital is represented. Section 51, sentence 2 of the SEAG exempts from this rule amendments to the Company's business purpose, resolutions on cross-border relocation of the Company's headquarters and cases in which a larger capital majority is mandatorily required by law. For resolutions that require a three-quarter capital majority under the German Stock Corporation Act, a three-quarter majority of share capital represented is consequently also necessary at Klöckner & Co SE.

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

POWERS OF THE MANAGEMENT BOARD TO ISSUE AND REPURCHASE SHARES

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

Subject to approval from the Supervisory Board, the Management Board is authorized to increase the Company's share capital on or before May 11, 2022 by up to a total of €124,687,500 by issuing, on one or more occasions, up to 49,875,000 new no-par-value registered shares against cash or non-cash contributions. For further details, see Section 4 (3) of the Articles of Association (Authorized Capital 2017).

The Management Board has been authorized to issue warrant-linked bearer bonds and/or convertible bearer bonds, or combinations of such instruments, at any time on or before May 11, 2022, on one or more occasions, in one or more separate tranches, and to grant holders of said bonds option or conversion rights up to 19,950,000 no-par-value registered shares in the Company having a proportionate amount in the share capital of up to €49,875,000. Authorization has thus been granted for a contingent capital increase by up to €49,875,000 (Conditional Capital 2017), which may be carried out insofar as conversion rights are exercised and/or bonds are converted in fulfillment of conversion obligations with respect to bonds issued by the Company or its subsidiaries under authorization of the Annual General Meeting of May 12, 2017 but also in case of an adjustment of the conversion ratio of the 2016 Convertible Bond. For further details, see Section 4 (7) of the Articles of Association.

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

Under Section 71 (1) No. 8 of the German Stock Corporation Act, and in accordance with the resolution adopted by the Annual General Meeting on May 12, 2017, the Company is also authorized to acquire treasury stock in a volume of up to 10% of the Company's share capital in issue at the time of adoption of the resolution by the Annual General Meeting on May 12, 2017 or, if lower, the Company's share capital in issue at the time of exercise of the authorization. The Management Board has been additionally authorized to acquire treasury stock using derivatives (put options, call options or forward contracts). The authorization may be utilized in whole or in part, on one or more occasions, by the Company, by Group companies or by third parties acting on the Company's account or on the account of Group companies. The authorization is valid until May 11, 2022.

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

If a person, or persons acting in concert within the meaning of Section 2 (5) of the Securities Acquisition and Takeover Act (WpÜG), directly or indirectly acquire(s) more than 50% of the voting rights in the Company, any of the individual lenders under the currently €300 million syndicated revolving credit facility each have a right of termination in relation to its commitment. The European ABS program (current volume: €220 million) also provides for a right of termination in such event.

In the event of an acquisition of control, the terms and conditions of the 2016 Convertible Bond permit the bondholders to demand early repayment of the principal amount plus accrued interest in certain cases. Pursuant to those terms and conditions, an acquisition of control is deemed to have occurred if a person, or persons acting in concert, directly or indirectly hold(s) more than 50% of the voting rights in the Company (acquisition of control).

Individual bondholders are also entitled to exercise their conversion rights at an adjusted conversion price in the event of a change of control under certain conditions. Pursuant to the terms and conditions of the 2016 Convertible Bond, a change of control is, among other instances, deemed to have occurred if (i) an acquisition of control as referred to above occurs or (ii) a mandatory offer within the meaning of the Securities Acquisition and Takeover Act is published or (iii) in the event of a voluntary takeover offer as defined by the Securities Acquisition and Takeover Act, the bidder holds at least 30% of the voting rights in the Company, regardless of whether the bidder's stake results from the holding or attribution of voting rights or from voting rights in relation to which the takeover bid has already been accepted, whereby in the event of a conditional takeover bid a change of control is only deemed to have occurred if the offer conditions have either been met or waived.

For additional information, please refer to the terms and conditions of the 2016 Convertible Bond.

The termination rights agreed upon represent standard industry practice, especially with respect to the granting and extension of long-term credit facilities.

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

If a threshold of 30% of voting rights is exceeded, the Chairman of the Company's Management Board (CEO) has the right to early termination of his service contract ("change-of-control" provision). Should he exercise that right, he will be entitled to payment of his budgeted salary (fixed component plus budgeted bonus) up to the end of his contract term, capped at three times the total remuneration received in the last full fiscal year prior to termination of his service contract. The personal investment requirement is waived. Any personal investment shares still vesting will be unlocked and released. On extension of the CEO's contract beyond the reporting year, the change-of-control provision was removed with effect of January 1, 2021.

Virtual stock options granted to senior executives include a provision under which the options may be exercised immediately if a threshold of 30% of voting rights is exceeded.

4.3 Dividend planning

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

In view of the crisis-related net loss of €114 million in the reporting year, the Management Board and Supervisory Board are proposing that no dividend be paid for the fiscal year 2020.

5. Macroeconomic outlook including key opportunities and risks

5.1 Expected global economic growth

Expected global economic growth in 2021: 5.5%

For 2021, the International Monetary Fund (IMF) forecasts a 5.5% recovery in the global economy. The production of effective COVID-19 vaccines and advances with therapies that relieve the pressure on the healthcare system, together with an increased fiscal policy response, could boost global output and have a marked positive impact on economic growth. There will nevertheless initially continue to be fundamental uncertainty about the path of the pandemic. The main risks cited are those of further COVID-19 outbreaks and delays in vaccine distribution. Risks are also presented by additional uncertainty factors such as political tensions between the USA and China, increasingly tight liquidity and rising corporate insolvencies.

On IMF estimates, the eurozone economy is expected to grow by 4.2% in 2021. According to the IMF, bringing the pandemic under lasting control over the course of the year combined with rapid and efficient implementation of the EU stimulus program could promote structural reforms and help the eurozone achieve significant consumption and productivity growth. A continuation of current monetary policy ought to keep borrowing costs low for as long as the pandemic-triggered crisis endures. However, a recurring need for containment measures could increase uncertainty and may hold back the recovery.

For the USA, the IMF expects that GDP will grow this year by 5.1%. Enacted and planned stimulus packages should boost consumption in particular. The advancing vaccination campaign could also help bring the pandemic under lasting control. Conditions are also expected to improve in key US export markets. Negative labor market conditions and potential trade disputes, especially with China, continue to be a downside risk.

According to the IMF, the Chinese economy will grow by about 8.1% in 2021. The fiscal policy support is expected to continue having a positive impact on economic activity and aiding consumption, with the result that China could regain higher growth rates as early as this year.

Expected development of GDP (in percent)	2021
Europe*)	**4.2**
Germany	3.5
United Kingdom	4.5
France	5.5
Belgium	3.9
Netherlands	3.0
Switzerland	3.3
China	8.1
United States	5.1
Brazil	3.6

*) Eurozone.
Source: IMF, Bloomberg.

Expected steel sector trend
For 2021, the World Steel Association forecasts around 4.1% year-on-year growth in global steel demand to 1,795.1 million tons. The Association expects total steel demand to increase by 11.0% in the European Union, 6.7% in the USMCA (the North American free trade zone) and 8.2% in South and Central America, while staying level in China.

5.2 Expected trend in our core customer sectors

Construction industry
Oxford Economics estimates that the Eurozone construction industry will grow considerably in 2021 with an increase of around 7%. Most of this growth is expected to come from the private residential construction and civil engineering sectors. Additional stimulus programs are likely to especially benefit public construction and infrastructure projects. Commercial construction is expected to grow at a slightly slower pace, partly due to the shift in demand for office properties as a result of the pandemic. Growth of around 4% is projected for the construction industry in the USA. The robust growth is primarily being driven by shortages in the private housing sector. As elsewhere, the onward recovery in the USA will be reinforced by stimulus programs.

Machinery and mechanical engineering
Machinery and mechanical engineering output in the eurozone is expected to grow substantially with an increase of around 8%. Due to the market dislocation caused by the COVID-19 pandemic, combined with the sector's long investment cycles, it will take time for global supply chains to normalize and for the recovery in orders to have a more significant impact on manufacturing activity. Slight overall growth of around 4% year on year is projected for the USA. A recovery in downstream markets, and particularly in the automotive sector, is expected to further increase demand in the US machinery and mechanical engineering sector in 2021. More restrictive business borrowing terms could nevertheless have a negative impact on investment activities.

Automotive industry
According to estimates from the German Association of the Automotive Industry (VDA), the European automotive industry will grow by about 12% in 2021, continuing the strong recovery that began in the second half of last year. The economic recovery expected in the course of the year, in conjunction with government incentives – particularly for low-emission vehicles – should additionally support demand. However, risks relating to further restrictions due to the COVID-19 pandemic, such as supply shortages or production stoppages, persist for the time being and could temporarily limit the rapid recovery. The US automotive industry will grow at a slightly slower rate of around 9%. In China, unit sales are expected to grow by around 8%.

5.3 Risks and opportunities

Uncertainty about the further path of the COVID-19 pandemic remains the decisive macroeconomic risk, even if it appears foreseeable that, at least in the most important countries for the global economy, the increasing availability of effective vaccine doses will allow risk groups to be vaccinated by the second quarter and for the pandemic to be effectively contained by vaccinating large sectors of the population by the end of the third quarter. On the positive side, despite the expansion and in some cases tightening of lockdowns over the winter months, industry has so far been able keep producing in many countries, as a result of which the impact on global trade is not expected to be as severe as during the first lockdown in spring 2020. The same applies to the still largely robust construction industry. In the automotive sector, the economic recovery is expected to bring a positive trend, although this will be held back by difficulties in restoring supply chains.

January 1, 2021 saw the United Kingdom exit the EU single market and customs union. The treaty signed at the year-end was able to prevent a no-deal Brexit and, in doing so, at least avert the most significant risks. Under the new US administration, the trade conflict between the USA and China is expected to continue. However, the Democrat majority in the Senate makes it increasingly likely that a comprehensive stimulus package will be adopted to provide new impetus for the globally important US economy.

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

There are also opportunities, however, such as a revival of US cooperation with its allies under the new Biden administration, although there is not expected to be a move away from the America First policy for the US economy.

Following the pandemic-related recession, the global economy is expected to regain pre-pandemic growth rates as early as mid-2021, although growth in 2019 was at its lowest level since the financial crisis. Steel demand in Europe and the USA, which was unexpectedly strong in the second half of 2020 despite much production capacity being shut down due to the pandemic, should stabilize in 2021. At the same time, capacity may gradually come back on stream, which raises the possibility for a return to full production, primarily in the second half of the year. At the same time, additional capacity will become available in the form of new steel mills in the USA. The significant temporary supply shortage is currently driving steel prices and the very high price level harbors the danger of a sharp correction. However, the expectation of strong economic growth in China, a potential growth impetus from large stimulus packages and a successful vaccination strategy also offer the opportunity for the added capacity to be partly offset by further growth in steel demand.

Risk policy

Optimizing the Group's risk position

Risks are frequently unavoidable in our business activities if we are to leverage market opportunities. We therefore aim not to minimize but to optimize the Company's risk position, as otherwise opportunities would have to be passed up.

Risk and opportunity management is an integral part of our management process. Our Risk Management System (RMS) is supplemented by our Group-wide Internal Control System (ICS) and our Compliance Management System (CMS; see 7 Corporate Governance Statement – COMPLIANCE on page 102). The RMS, ICS and CMS, supplemented by data protection and information security, form the core of Governance, Risk & Compliance (GRC). Regular, intensive exchange takes place there to create synergies wherever possible by close coordination and collaboration.

Risk management system

The primary objectives of the RMS are to identify and assess material risks and above all early detection and active reduction of potential going concern risk. We continuously monitor significant risks that have been identified by our risk management system, enabling us to prevent, reduce, transfer or limit their potential negative impact. It should be noted, however, that even with an appropriate and properly functioning system, there can be no absolute guarantee that risks will be fully identified and managed and their potential negative impact entirely averted.

Both our RMS and our ICS are based on generally accepted standards, including the framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the additions to that framework – COSO ERM (Enterprise Risk Management) – for Group-wide risk management. Documentation of the RMS implemented throughout the Group is assisted by risk management software. The RMS is continuously revised to enhance risk transparency and information quality and to meet the increasing requirements. The appropriateness and effectiveness of Klöckner & Co SE's risk management system was most recently subjected to a voluntary review by an independent auditing firm on the basis of IDW Auditing Standard 981 in 2019. The review found our system to be appropriate and effective.

Risk management structure and tasks

SUPERVISORY BOARD

Monitoring of effectiveness of Risk Management System
Assessment of risk reporting

AUDIT COMMITTEE

Evaluation of Risk Management System regarding legality, apropriateness and cost effectiveness as well as report to entire Supervisory Board

MANAGEMENT BOARD

Responsible for appropriate group risk management

RISK COMMITTEE

Supervision and consulting

CORPORATE RISK MANAGEMENT

Risk evaluation and control, reporting to Management Board and Supervisory Board

RISK MANAGEMENT FUNCTIONS

Risk owner respectively country risk manager:
Identification and assessment respectively control and reporting

The organization of our RMS is geared toward promoting risk awareness throughout the Group and ensuring the effectiveness and efficiency of the RMS. In addition, to reinforce the understanding of risk and of our risk culture, online training was implemented in 2020 on the fundamentals of risk management. This training is compulsory for all senior managerial staff and employees directly involved in the risk management process.

Overall responsibility for the RMS lies with the Management Board, while the Supervisory Board monitors its effectiveness. The Audit Committee is involved in the process via regular reporting and also assesses the risk strategy and the RMS. Risk owners identify, assess and carry responsibility for their respective risks and responses. As the link between the operating units and the Corporate Risk Management Department, local risk managers serve a control and reporting function. The Corporate Risk Management Department reviews, validates and evaluates the risks identified and assessed by risk owners from the perspective of the Company as a whole and prepares reports for the Management Board and Supervisory Board. The Risk Committee critically reviews the resulting current risks as well as supervising and advising the Corporate Risk Management Department.

The basis of consolidation for Group risk consolidation purposes is the Group as a whole. By and large, the primary risks relating to the steel distribution and steel service center business are identical in the various segments. Presentation of risk management information by segment is therefore not meaningful.

Risk management process
The risk management process mainly involves the following four components:

1. Risk identification – A risk field matrix showing the key risk fields along predefined risk categories is used to identify material risks in a structured manner as well as to enable risk to be recorded systematically and uniformly at both country and corporate department level. All risks are analyzed with regard to their impact over a one-year period. We also analyze all material risks and going concern risks with regard to their long-term impact. The result of this process is a risk inventory, which is updated at regular intervals.
2. The relevance of each risk is assessed using a five-level scale. A risk's relevance represents its overall significance and thus combines various aspects such as expected value, realistic maximum loss and risk duration. Relevance is used to classify identified risks and show their potential impact on earnings before interest, taxes, depreciation and amortization (EBITDA) – this being one of our key performance indicators – at the time of risk analysis and before risk mitigation measures (i.e. on a gross basis). We also include risks such as impairment losses, interest rate risk, currency risk and tax risk that do not impact EBITDA but on the basis of prudent business judgment could have a significant effect on liquidity, equity or the Group's net income.

RELEVANCE SCALE

Relevance	Degree of influence	Definition	Potential impact (€ million)
1	Insignificant risk	Insignificant risks that could cause barely noticeable deviations from the operating result	< 6
2	Intermediate risk	Intermediate risks which could cause significant deviations from the operating result	≥ 6
3	Significant risk	Significant risks that could greatly affect the operating result or have long-term effects	≥ 18
4	Serious risk	Serious risks which could lead to very large deviations from the operating result or have substantial long-term significant impact	≥ 60
5	Critical risk	Critical risks that could potentially jeopardize the continued existence of the Company (threat to going concern)	≥ 180

Given the differences in individual company size and financial capacity, various relevance scales are employed across the Group. Aggregation for the Group as a whole is done on the basis of the individual risks identified and assessed at country level and at corporate department level at Klöckner & Co SE, which are combined into risk groups and further aggregated into primary risks in accordance with the underlying reference target (EBITDA). Identified individual risks are analyzed with regard to both their impact on the relevant primary risk items and the interdependencies among them.

3. Risk management and control – Local risk managers and the Corporate Risk Management Department at Group level share responsibility for managing and controlling risks classified as “significant,” “serious” or “critical”.
4. Twice annually, in parallel with compilation of the risk report, these processes are monitored internally by the Group-wide Risk Committee. The committee comprises representatives from the corporate departments of Klöckner & Co SE as well as the operating units and is headed by the CFO of Klöckner & Co SE. In addition, the Supervisory Board as governing body monitors the RMS and examines risk reporting.

Risk reporting

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

In addition, the CFO of Klöckner & Co SE reports regularly on changes in significant risks and opportunities at meetings of the Supervisory Board’s Audit Committee. Furthermore, at the regular monthly meeting, the Chairman of the Supervisory Board is provided with a detailed overview of the Company's results of operations and cash flows as well as, among other things, the related risks and opportunities.

Key features of the internal control and risk management system in relation to the financial reporting process

Our internal control system (ICS) encompasses principles, processes and measures applied to ensure the effectiveness and efficiency of business operations, compliance of the accounting system with generally accepted principles, accounting system reliability and adherence to the applicable legal provisions. The aim of the ICS is to use the implemented controls to obtain reasonable assurance that risks can be monitored and managed, thereby enabling the Company to guarantee that its objectives will be met.

ELEMENTS OF THE INTERNAL CONTROL SYSTEM IN RELATION TO THE FINANCIAL REPORTING PROCESS

In line with the internationally recognized “three lines of defense” model, risks must be prevented where they arise. The first line of defense therefore lies with operating business management, which manages and controls the various risks. As it is not always possible for risks to be covered at this level in full, there are two additional lines of defense. The second line of defense comprises the corporate functions at Klöckner & Co SE, which monitor risks and also actively contribute to risk management. Alongside Corporate Risk and ICS Management and Corporate Compliance, these mainly comprise the Corporate Accounting and Corporate Controlling departments. Monitoring measures not tied to a specific process are carried out by the Corporate Internal Audit Department as the third line of defense. This monitors the appropriateness and effectiveness of processes and systems in the first two lines of defense.

The Group’s Supervisory Board, in particular as represented by the Audit Committee, is also an integral part of our control system.

In the context of the consolidated financial statements prepared under IFRS and the single-entity financial statements prepared under the German Commercial Code (HGB), the objective of our ICS in relation to the financial reporting process is to identify and appropriately manage and control all material risks. For this purpose, we further standardized and harmonized our ICS in relation to the financial reporting process across the Group in 2020. We also centralized responsibility for methodology and system design as well as institutionalizing it in an ICS.

FINANCIAL REPORTING RISKS

Specific financial reporting risks include complex and/or non-routine accounting issues. The application of management judgment in financial statement preparation harbors increased potential for errors. Risks from derivative financial instruments are one example. These are presented in detail in the notes to the consolidated financial statements.

CONTROL ACTIVITIES TO ENSURE COMPLIANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Our main accounting process control activities in the ICS accord with generally accepted accounting principles and comprise:

- The ICS in relation to the financial reporting process, which is continuously enhanced using standardized risk control matrices including a regular self-assessment process and independent review, and also includes the financial reporting processes of external service providers.
- Control mechanisms, which include the review of selected matters, reduce the probability of error in the processes and detect any errors that arise (dual control principle).
- Clear separation of administration, execution, invoicing and approval reduces the possibility of fraudulent acts.
- Uniform Group accounting policies in compliance with IFRS and issued by Corporate Accounting are accessible to all Group companies in an intranet portal.
- A standardized Group reporting package for all subsidiaries to ensure that the additional information required to be published in the notes to the consolidated financial statements is complete and uniform.
- Consolidation software with integrated plausibility checking to ensure formal data consistency between Group reporting packages. Substantive checking is additionally performed manually by Corporate Accounting.
- IT-based controls, such as logical access restrictions and defined user profiles, protect against unauthorized access to the underlying financial accounts and consolidation software.

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

Presentation of individual risks

As part of the RMS, we have identified material risks, classified them by risk category and assessed their relevance. On the whole, our primary risks fall into the categories of market risk and strategic risk. These types of risk are described in more detail below. We subsequently discuss the most significant risks in all other risk categories.

Relevance / *Risk category*	4 Serious risk (≥ €60 million)	3 Significant risk (≥ €18 million)	2 Intermediate risk (≥ €6 million)
Market risk	Effects of the pandemic development on customer industries		
	Economic situation/ Economic downturn in target markets		
	Demand and price development		
		Failure to achieve performance indicators	
		Competitive situation	
Strategic risk		Insufficient strategy for a sustainably profitable business model	
		High level of dependence on profitability from US, Swiss and Becker Stahl-Service business units	
		Dependence on commodity products and construction, automotive and mechanical engineering industries	
		Political risks	
		Renewed financial crisis	
		Excessive sovereign debt as a trigger for sovereign debt and/or liquidity crises	
			Lack of success in future acquisitions
Financial risk	Impairment of financing options due to the pandemic		
			Impairments on non-current assets *)
			Year-over-year decrease in discount rate for pension obligations **)
			Weak development of the share price
Legal/ Compliance risks		Antitrust violations	
			Changes in tax legislation or administrative interpretation of tax matters
IT risk		Cyber risks	
Personnel risk			Loss of key personnel

*) Do not impact the key performance indicator EBITDA but do impact net income.
**) Does not impact the key performance indicator EBITDA, but may impact the Group's financing covenants.

Market risk

Potential impacts of the COVID-19 pandemic on our customer sectors are currently a serious risk. In the construction sector – a key customer sector – the decisive factor alongside customer demand is whether construction sites can stay open during the lockdown, which, during the second wave so far, has largely been the case. Demand is recovering more slowly in mechanical engineering than in other industries, especially outside China. Working off accumulated backlogs of orders and projects is providing positive impetus, as are lower interest rates for financing capital goods. In contrast, business confidence has been hit by the second wave and is marked by caution among market players as seen, for example, in a greater propensity to rent rather than buy machinery and to postpone capital expenditure. After a sharp recovery in demand, the automotive sector is developing in line with the general economic trend. As it gradually regains pre-pandemic production levels, however, the sector's structural problems are once again coming to the fore. A first major merger could be followed by others in a consolidation wave. For many of our customers' industries, the oil price is another key determinant of demand; this is the case, for example, in the shipbuilding and energy sectors that are important for US sales. Very low oil prices can rapidly lead to energy companies halting projects and capital expenditure. Crude oil now costs as much as it did before the steep price collapse caused by COVID-19 last spring.

Since last fall, the prospect of COVID-19 vaccinations has been the main factor behind the strong price gains, but there are also other factors such as Saudi Arabia's decision to significantly cut oil production in February and March. For the oil market as well, the future course of the COVID-19 pandemic remains the greatest risk for the foreseeable future. In addition, a prolonged and possibly tightened lockdown in many countries could significantly amplify second-round effects on the economy, such as job losses and corporate insolvencies, and impact our customer industries. We address these risks by constantly monitoring developments and maintaining close contact with customers, and in particular with our key accounts. This enables us to identify effects for customer industries at an early stage and take targeted action. In the first lockdown, this included rapidly moving employees to remote working along with strict hygiene measures, separating shifts, etc. (in order to protect employees as well as customers and suppliers at warehouses, ensuring that our sites can continue to deliver as usual) and communicating these measures to our customers. [The fact that we succeeded at this better than the competition also gained us new customers.] In addition, by identifying emerging developments at an early stage, we were able to be faster at implementing cost-cutting measures such as reducing temporary work and introducing short-time work programs.

Current risks to the economy include risks of a second recession, particularly in Europe, where an increasingly prolonged hard lockdown could adversely affect employee productivity and consumer confidence. Moreover, if the duration is much longer than expected, confidence within the economy that the pandemic is being increasingly contained may also decline, thereby reducing economic momentum. Sustained high or even rising infection rates could lead to the lockdown being both extended further and made broader and stricter. Mutations of the COVID-19 virus, especially in the United Kingdom, South Africa and most recently Brazil, are also tempering optimism. Additional uncertainties exist due to the ongoing trade conflict between the USA and China, as well as with regard to potential effects on Europe, which could negatively impact the development of the economy. The geopolitical situation in the Middle East could also drive up the oil price and fuel added uncertainty. We counter cyclical risks by being as broad-based as possible across a range of customer industries. In addition, we keep a close watch on the development of the general economy and our customer industries in order to infer cyclical and industry risks from leading indicators at an early stage and to respond with countermeasures.

Demand continues to be subject to high risk in our core sectoral markets comprising machinery and mechanical engineering and the automotive industry. Both sectors already showed marked weaknesses before the pandemic. The automotive industry is still undergoing a structural transformation that requires high levels of investment. For both sectors, there is also the question of what the new normal will look like post-COVID-19, meaning which subsectors will see lower demand than before the crisis and which subsectors will benefit. The construction sector is currently seeing demand shift towards the construction of owner-occupied housing, while the commercial construction subsector is questioning office development projects due the sharp rise in home working at the same time as the construction of warehousing, for example, is benefiting from the online retailing boom. Overall, the construction industry – the customer sector accounting for the largest share of our shipments – continues to exhibit strong dependence on the general cyclical trend. We are addressing the possibility of persistently lower demand in some customer sectors by broadening our customer base into growth sectors such as renewable energy or industries with innovative products such as modular housing. In addition, we are substantially and lastingly reducing our fixed cost base as part of the Group-wide Surtsey project and are making our cost structure more flexible. We are also increasingly investing in digitalization and pressing ahead even faster with related projects in order to meet our customers' heightened interest in digital solutions triggered by the pandemic.

Price trends for steel and other metals are highly volatile, as is currently very much in evidence. Following the price collapse triggered by the pandemic in the first half of 2020, steel prices hit their highest levels since the financial crisis in the second half-year and at the start of 2021. The unanticipated swift recovery in demand at a time when steel producers' capacity was still greatly reduced due to the pandemic led to a supply squeeze that acted as a price driver. However, that capacity will rapidly come back on stream over the course of the year. We sell most of our products at spot market prices. The time lag of up to several months between the setting of procurement prices, stockholding and the point at which we invoice sales means that we are constantly exposed to margin and valuation risk. Excessive inventory values can have a negative windfall effect on current earnings when selling prices are falling. Earnings can also be impacted if it is necessary to adjust the carrying amount of inventories to the detriment of earnings when preparing the financial statements. Due to the ongoing high level of surplus capacity in steel production worldwide, there is a constant threat of price declines and the negative impact on earnings performance that would inevitably follow. Interdependencies between price trends in different markets around the world could be temporarily affected by anti-dumping measures and further government intervention such as the punitive tariffs on steel and aluminum imposed by the US administration and the safeguard measures applied in response by the European Commission.

Other factors such as large exchange rate fluctuations or another drop in raw material prices could also adversely affect any sustained price recovery. As US capacity is even being expanded in 2021 and 2022, the structural imbalance between production capacity and actual demand will therefore persist for the time being. Consequently, prices and margins can come under pressure time and again. To respond to changes in the market as swiftly as possible – such as by taking specific measures in inventory management – we analyze trends and leading indicators along with the available forecasts. The main leading indicators for steel prices are price trends in iron ore, coking coal and scrap as well as market inventory levels. Price and inventory risk management is based on very close, continual monitoring of price trends in regional, national, and international markets. Coordination of procurement across national borders and product lines enables us to respond quickly to changing situations in the procurement market. In this way, we are able to optimize our portfolio of suppliers and make use of pooled procurement to obtain preferential prices, quantities and terms. A key element in procurement coordination is our country-specific monitoring of product ranges, demand and inventories. Price trends are also identified regularly in order to determine the risk of inventory write-downs on individual products. This information is incorporated each quarter into inventory valuation. Inventory management and valuation are similarly central elements of the monthly reporting process on the basis of which we rapidly detect material changes and take necessary countermeasures.

Due to the high volatility of our results, driven by cyclical demand variation in key customer industries, very high price volatility and a high fixed cost base, non-achievement of performance indicators is a significant risk. Under certain circumstances, this may limit borrowing options and the latitude for action, as well as make planning more difficult. We are reducing this risk with the Surtsey project and accompanying measures such as faster inventory turnaround.

As with the producer side, steel distribution likewise has surplus capacity that has led to intensification of the competitive situation. In both Europe and the USA, the top four distributors have over 25% market share. The top five distributors in Europe have almost 30% market share. At the same time, we have about 3,000 small market players in Europe and about 1,200 in the USA. In this market environment, excess inventories or downward price trends can prompt individual competitors to introduce special offers, leading to additional price pressure that can have a negative impact on earnings – as seen in the market during the first half-year as a result of more intense competition during the COVID-19 crisis. We therefore follow our competitive environment very closely. In addition, alongside numerous opportunities, digitalization also harbors risks. In the medium term, competitive pressures risk intensifying due to digitalization. Especially when digitalization goes beyond the simple digitalization of the existing business model and leads to a change in the business model itself (often exacerbated by new competitors), this can result in even greater pressure on prices, narrower margins and individual competitors exiting the market.

We are adjusting to market circumstances in the short and medium term by focusing on improving sales effectiveness and efficiency with the aid of Kloeckner Assistant and by reducing costs. One of the primary challenges here is adapting our existing organizational structure to make it leaner and more effective so that we can compete even better with small and medium-sized enterprises. We have made significant progress in this space thanks to both the Surtsey project and continuous improvement measures. Another key factor in minimizing market risk is our increasing differentiation in relation to competitors. The core elements in this space are the digitalization of the supply and value chain, notably with Kloeckner Assistant, coupled with the XOM Materials industry platform and other platforms, as well as continuing to drive forward our business in higher value-added products and processing services. We also aim to be more rigorous in obtaining the margins available in the market for our products and services by continuously fine-tuning our pricing and will collaborate with other market players to further expand our product and service portfolio.

Strategic risk

Regarding the potential lack of an adequate strategy for a sustainably profitable business model, we are gradually moving away from the traditional steel distribution business model, which is potentially no longer sustainable, by digitalizing the entire process from order to shipment and by driving ahead our platform strategy with the independent industry platform XOM Materials in both Europe and the USA. The resulting automation of our core processes is increasingly transforming Klöckner & Co into a platform company. This makes it possible to considerably reduce variable costs, thus laying the basis for profitable growth. Together with increasing the share of sales accounted for by higher value-added business and the focus in the Surtsey project on cost reduction and efficiency enhancement, we are well positioned and are improving our competitiveness, even in a market environment made more challenging than ever by the pandemic. The medium-term threat of steel production capacity remaining underutilized in the event of a prolonged COVID-19 pandemic could result in increased pressure on global steel markets, especially with significant capacity expansion in the USA. Steel tariffs, quotas and protective measures only provide temporary relief and are not a lasting solution. Klöckner & Co could consequently face even more intense competition with low margins and low profitability.

Over the medium term, we aim to reduce our high levels of dependence on earnings from our US and Swiss business units and from Becker Stahl-Service by more closely integrating our traditional steel distribution activities in Europe in order to unlock synergies, save costs and enable faster, more efficient implementation of our strategy. [Most notably, our leading role in digitalizing the steel distribution value chain is expected to deliver enhanced market differentiation and hence competitive advantages.] In this regard, we believe that fully implementing Kloeckner Assistant and XOM eProcurement in particular holds great potential for reaping efficiency gains in sales and procurement and securing a cost edge to set us apart from the competition. The Surtsey project will also further accelerate our digital transformation. Our ongoing investment in higher value-added products and services continues to make an important contribution to improving earnings from steel distribution.

To counter our dependence on the construction industry, the automotive supply business and machinery and mechanical engineering, we are diversifying our international presence, targeting other customer sectors such as industrial customers – examples include household appliance producers and the furniture industry, or the renewable energy sector in Europe, or heavy industry along with the hospitality/food industry in the USA – and, not least, streamlining our portfolio in low-margin parts of the construction business. In addition, we are devising effective new digital services together with customers to create added value for customers and set ourselves apart from the competition.

By political risks, we mainly mean the growing trend toward unilateralism and nationalism, resulting among other things in "America first" and "buy American" policies as well as having led to global trade conflicts and political decisions such as Brexit. The resultant social division currently seen in the USA and elsewhere leads to uncertainties regarding economically relevant policy choices, which could negatively impact the business climate and business decisions in relevant markets for Klöckner & Co. Political risks can lead to ownership risks, such as with foreign direct investments, transfer risks due to currency restrictions and also operating risks due to breaches of contract. To mitigate these risks, we pursue regional and international diversification while monitoring political events and analyzing their potential impact on Klöckner & Co in order to take preventive action as far as possible.

We consider the risk of another financial crisis to be significant. More towards the medium term, there is a risk of financial market disruption if the monetary and fiscal policy support measures are scaled back from the extreme levels currently needed during the COVID-19 crisis. We address this risk of potential upheaval on the financial and capital markets and the consequences of any such upheaval for our Company by maintaining solid balance sheet ratios and a diversified financing portfolio. This is demonstrated by our stable equity base and our comparatively low net financial debt in relation to equity. Our available working capital facilities ensure that we are able to finance our operating activities and cover our liquidity requirements. We also had adequate holdings of cash and cash equivalents as of the year-end 2020. These are invested on a short-term basis with the Group's core banks, which have at minimum an investment grade rating. With regard to performance indicators, please see under "Cash flows, financing and liquidity" in the "Economic report" section of the Annual Report.

Due to record levels of government support for the economy around the globe, we consider a sovereign debt crisis in our relevant markets to be a significant risk in the medium term. In order to improve our resilience to negative influences from such a crisis on our business environment, we back up our solid financing and measures under the Surtsey project with ongoing efforts to optimize workflows and processes in our business operations. These are intended to accelerate efficiency-raising measures and promote continuous improvements on a sustained basis.

Every crisis also presents opportunities, among other things for attractive acquisitions. As with all M&A activities, acquisitions are governed by a comprehensive M&A policy. Compliance with this policy is monitored centrally. When selecting acquisition targets, we do not enter into any going concern risk. All acquisitions undergo thorough due diligence prior to purchase. No later than three years after an acquisition, the Corporate Internal Audit Department carries out an evaluation. In an ongoing process, we also identify new risks emerging from past acquisitions so that we can respond quickly and appropriately. Nevertheless, we are unable to rule out negative developments entirely, as the business situation of acquisition targets is generally subject to the same strategic risks as our other activities.

Financial risk

The immediate availability of financing instruments for Klöckner & Co was assured at all times throughout the reporting year. This was demonstrated by the extension of the syndicated loan (to May 2023) and by the renewal of the European ABS program (to November 2023) and the borrowing base facility in the USA (to March 2024). We nevertheless continue to regard the overall reduction in financing options due to the pandemic as a serious risk. For example, a prolonged COVID-19 crisis could affect the quality of trade receivables and thus the volume of working capital financing possible under the ABS programs. Similarly, general market developments could reduce the availability of credit insurance for our key suppliers and, at the extreme, limit our ability to place orders. Weak profitability over multiple quarters and a high debt level could lead to a downgrade of the Group's credit ratings, exert pressure on borrowing terms and possibly also covenants, and reduce our financial flexibility.

We have acquired several companies in recent years as part of Klöckner & Co's growth strategy. In measuring the value of those companies, we made assumptions regarding their future business performance. There is a risk of actual developments diverging from these assumptions. As of December 31, 2020, non-current intangible assets from acquisitions in North America totaled €47 million. A significant reduction in the value in use of those assets could result in impairment losses. Even though it does not affect our key performance indicator EBITDA, this is rated an intermediate risk overall as it has a major impact on net income. Notable countermeasures include the continuous optimization of our North American activities, most notably at present under the Surtsey project, which, among other things, targets lasting improvements in our earnings situation in the USA.

The Group recognizes pension provisions for current and future benefits to eligible current and former employees. Defined benefit or defined contribution plans are in place depending on the legal, economic and tax environment in each country. The risk associated with defined benefit pension obligations corresponds to the expenditure necessary to meet the obligation. Such expenditure is calculated on the basis of actuarial assumptions and also requires the use of estimates. Benefit costs may increase or – in the case of funded plans – additional contributions to fund assets may become necessary due to tighter legal requirements. In the case of funded pension obligations, such as in the USA and the UK, plan assets are exposed to capital market risk. With regard to defined benefit obligations, a falling discount rate relative to the prior year would have a considerable impact on the measurement of our obligations given the low interest rate environment. A potential further reduction in the discount rate would necessitate further additions to pension provisions, with the effect of reducing equity. In light of the high volatility in the steel distribution industry, we regard changes in the discount rate as an intermediate risk, even though this does not impact our EBITDA key performance metric, as under certain circumstances it could affect our Group's financing covenants. We therefore monitor interest rate changes and their balance sheet impact so that we can take timely countermeasures as needed. In addition, we regularly commission independent experts to produce asset/liability studies as part of risk analysis and, where necessary, adapt our investment policy accordingly. Decisions on the allocation of funds to pension schemes have to be approved by the Group Management Board. New commitments are on a defined contribution basis only so as to minimize the financial risk arising from pension commitments (see the Notes to the Consolidated Financial Statements; Notes to the consolidated statement of financial position: (23) Provisions for pensions and similar obligations).

We consider a very weak share price performance to be an intermediate risk. Partly due to sharply rising steel prices in recent months, the share price has recovered significantly. It is nevertheless still at a level that limits our financing options, as a capital increase or equity-linked financing instruments such as convertible bonds require a certain minimum share price level for an issue to be successful and make financial sense. In addition, an extremely weak share price, as in mid-March when the first wave of the pandemic began, can attract financial investors who may not be interested in the Company's long-term success. We are reducing this risk with the Surtsey project and other measures to sustainably improve the Company's performance and reduce the volatility of our financial results.

Legal, tax and compliance risks

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

In the area of compliance, however, we continue to view the risk of antitrust violations as a significant risk, particularly the risk of collusion with competitors – for instance, involving price fixing, market allocation or agreeing on production, procurement and supply quantities. Alongside classroom training, one notable measure to counter this risk is an e-learning tool that is mandatory throughout the Group. Among other things, this provides information on the main points of our Code of Conduct, which is published throughout the Group and on the Internet, and on compliance-relevant Group policies, notably also on antitrust law.

In the area of taxes, the risk of changes in tax legislation or in the administrative interpretation of tax matters continues to pose an intermediate risk. Based on the guidelines and directives in force, our Corporate Taxes Department is involved in the legal assessment of such matters in Germany and abroad. We constantly monitor the situation to detect any changes early on. This allows us to take suitable measures to minimize risk and recognize provisions as appropriate. The current systematic and effective implementation of a tax compliance management system in our Group companies has the purpose of identifying and monitoring structures, work processes and circumstances within the Company and, if necessary, of initiating adjustments that have or may have tax implications.

IT risks

Our business processes depend heavily on the IT systems installed. In addition to our administrative systems, these primarily include systems in procurement, sales and logistics. We consider our IT systems to be exposed to cyber risk due to the general increase in outside attacks on IT systems and notably also in light of the increasing digitalization of our supply and value chain. By cyber risk, we mean risks of adverse modification to, loss or misuse of or interruption to the availability of data or IT systems, and data breaches. We regard the threat of viruses, targeted hacking, carelessness, deliberate data falsification or modification and IT system failure as a significant risk. To counter the threat from cyber risks, we have added resources and know-how to Klöckner & Co Group IT and have established a Group Data Protection Officer and an Information Security Officer. We also deploy various technical and organizational preventive measures, training and awareness campaigns – for instance, against system failure and employee carelessness, in addition to specific protection from cyber attacks.

Personnel risks
As a service provider, Klöckner & Co is highly dependent on the skills and experience of its employees. In the industry and regions in which we operate, competition for eager, dedicated and highly qualified employees and executives remains fierce. The loss of employees in key positions, particularly when integrating newly acquired companies and in the case of subsidiaries with specialty activities, therefore poses an intermediate risk. It has moreover proved increasingly difficult to find qualified employees in a timely manner in the countries in which we operate. The main reason for this is that in countries such as the USA, Germany and Switzerland, but also in the rest of Europe, employment levels remain relatively high despite the COVID-19 pandemic, including and in particular for experienced, skilled workers.

We have designed our remuneration systems to motivate and retain employees; the same applies to our personnel development programs and measures. Our HR tools help us to safeguard existing expertise and new talent. At the same time, they ensure that our resources are transparent. Moreover, we regularly identify potential personnel risks through our internal monitoring process. We also have our executives undergo an evaluation by external experts when the need arises and conduct Group-wide employee surveys at regular intervals. In addition, we use employer branding to position Klöckner & Co as a strong employer brand both within the Group and towards the outside world.

Overall statement on the risk situation of the Group
In what continues to be a volatile market environment, newly emerging risks were identified at an early stage and suitable countermeasures implemented wherever necessary or economically expedient. The Management Board is confident that the Group's risk management system is effective. Moreover, the Management Board believes that Klöckner & Co has recognized sufficient provisions to cover all risks required to be accounted for when preparing the financial statements. Based on the measures taken and planned, in particular to ensure liquidity, the Management Board is not presently aware of any risks that, either individually or taken as a whole, cast doubt upon the Group's ability to continue as a going concern.

Opportunities and opportunity management
Systematic identification, assessment, management and control of opportunities are the responsibility of management at country level and the Management Board. Financing and implementation of the opportunities resulting from our corporate strategy are supported by the corporate departments. Resulting projects are managed together with the holding company and success is monitored jointly. A secure financing structure, effective procurement and inventory management, optimized sales processes and human resources management that promotes innovation potential provide the basis for leveraging opportunities at Klöckner & Co. Added to these is a high level of digitalization expertise throughout the Group. Activities in this area are spearheaded by the Digital Transformation corporate department with the support of kloeckner.i, kloeckner.v and XOM Materials. In the following, only the most significant opportunities currently available to us are described in detail. As our markets are dynamically changing and both our business environment and Klöckner & Co itself consequently continue to evolve, our assessment of opportunities is naturally also subject to change. It is therefore possible that the described opportunities may cease to apply or prove unable to be realized.

Strategic opportunities
Every crisis creates opportunities. To take advantage of these, we launched the Surtsey transformation project immediately after the onset of the pandemic. The aim of the program is to seize all upcoming opportunities to decisively accelerate Klöckner & Co's transformation into a platform company and to emerge stronger from the crisis. Alongside digital transformation, the project's objectives also include additional restructuring measures, more rapid upscaling of XOM Materials and the exploitation of M&A opportunities.

In the course of our restructuring, we have also further optimized our site network by closing a total of 19 smaller branches and cutting costs across the organization. As a result of advancing digitalization and optimizing our site network and cost structure, the workforce will be reduced under the Surtsey project by a total of more than 1,200 employees. The one-off expenditure incurred for the restructuring largely completed in 2020 will pay off in the future in the form of a considerably improved earnings situation and lower working capital. As early as the end of 2021, we plan to have improved our operating income by over €100 million. By that time, more than 55% of our Group sales will already be generated via digital channels. With the higher profitability as a result of Surtsey and increased digitalization, we are paving the way for unlocking additional growth potential, including by taking a more active role in ongoing market consolidation. Due to high decision-making pressure on market players, such a serious crisis as the current pandemic always presents opportunities to acquire businesses that fit our overall strategy on attractive terms. Consequently, we keep a very watchful eye on market developments and, where appropriate, subject companies with a strategic fit to closer scrutiny, particularly with a view to synergies that add value.

We continue to systematically pursue our “Klöckner & Co 2022” growth strategy. [As a pioneer and leader in digitalization for steel and metal distribution], we have been consistently advancing our digital transformation under this strategy for some years, with the outcome that the third quarter already saw us exceed our year-end 2020 target of generating 42% of sales via digital channels; we further increased this to 45% in the fourth quarter. A key factor in this acceleration is our Kloeckner Assistant, with which we are increasingly automating our sales processes. Almost all country organizations now use Kloeckner Assistant in sales. Simultaneously, we are automating our procurement with the XOM Materials eProcurement application. After focusing on customer interfaces at the start of our digital transformation, digitalization of the end-to-end process from ordering to shipment has now moved to center stage. Step-by-step automation of subprocesses is not only a key competitive advantage. It also moves Klöckner & Co further forward towards becoming a platform company. Platform companies are characterized by large-scale automation of core processes and scalability of their business model, meaning they are able to grow without major additional financial outlay and hence possess a good basis for long-term profitability. That is what makes platform company so successful and valuable.

With our Kloeckner Assistant and XOM eProcurement applications, we are now automating our core procurement and sales functions. In addition to the transformation of our core processes, we have created XOM Materials, a procurement and sales platform for all products and services associated with the manufacturing industry that is also open to competitors. The pandemic has once again demonstrated that we are on the right track with our digitalization strategy. A platform helps eliminate information asymmetries in steel and adjacent industries by digitally connecting all market participants in order to significantly increase efficiency for everyone involved. The goal here is for Klöckner & Co to provide the entire range of products and services via all sales channels.

Alongside digitalization and platforms, further pillars of our “Klöckner & Co 2022” growth strategy include expanding higher value-added business and improving efficiency.

In higher value-added business, we plan to achieve further organic growth with the goal of reducing earnings volatility and raising profitability. This is expected to additionally boost our efforts to digitalize our business model to be more forward-looking, create added value and be less prone to risk. Examples include investing in 3D lasers so that we can continue to provide higher value-added products and services and expand our customer base. Rolling out our 3D laser capacity across Europe helps make efficient use of our network. Alongside the second-biggest 3D laser center in the UK and several 3D lasers in Germany and the US, we now also have 3D laser capacity in France and the Netherlands. We thus successfully occupy a niche in both Europe and the USA. With regard to aluminum, a key material for the future, we have systematically expanded our activities for processing aluminum flat products at our service center operated by Becker Aluminium-Service in Bönen, Germany, and also have three special facilities for coating aluminum sheet and sections in the United States. The process used improves both product functionality as well as surface finish and is of particular interest for architectural and catering applications. We have not only secured access to this technology in the United States, but also the exclusive distribution rights there and in Brazil with our Chinese cooperation partner.

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

Operational opportunities
In operational terms, too, we adapted very rapidly as a Group to the new circumstances during the COVID-19 pandemic and, with the aid of our advanced digitalization, were able to switch smoothly and immediately to remote working. We also demonstrated our agility on the stockholding side by quickly introducing a range of hygiene measures and rules of conduct to protect employees, suppliers and customers and have thus been able to show that, unlike some competitors, we are still able to deliver.

When steel demand in the USA collapsed in early 2020 due to COVID-19, our US subsidiary Kloeckner Metals Corporation received an unexpected inquiry from a customer. The customer was looking for a supplier of hand sanitizer columns. On short notice, our local manufacturing team decided not only to make the components, but also to assemble, paint, package and ship them for easy installation. This resulted in a large-scale project for our US subsidiary. Our US colleagues built and shipped mobile hand sanitizer dispensers and columns for the likes of schools, restaurants and hotels across the country, and in this way contributed to the fight against COVID-19 – a further example in which Klöckner & Co demonstrated its agility in order to seize operational opportunities.

Our “Klöckner & Co 2022” strategy brings with it numerous opportunities from operational-level changes. Since mid-2019, for example, our Digital Transformation corporate department has been operationalizing our digitalization strategy. Its task is to provide consistent management and coordination of our Company’s digitalization from a position firmly established within the organization. As the central point of contact and sparring partner for the country organizations, the department helps implement digital tools and strategy projects and initiatives relating to data and process management, to digital procurement and sales and to pricing and logistics. The Digital Transformation team thus supports the countries in advancing the digital transformation.

XOM eProcurement is a smart application which was specifically developed by XOM Materials for online procurement of steel and other materials and which we use intensively within Klöckner & Co. The software solution makes it possible to accelerate procurement processes and cut procurement costs by making the processes more efficient and less error-prone. It streamlines the entire process from requirements planning to quote requests, negotiations and order placement – all centralized in one place. Manually checking, comparing and updating long Excel lists of plants, suppliers, customers and procurement requirements becomes a thing of the past. That saves time and resources. XOM eProcurement has now been further developed for project activities and day-to-day operations.

Launched in 2019, Kloeckner Assistant is now also used by nearly all country organizations in sales, where it helps relieve the workload of sales staff. The application can automatically scan orders and transfer the information they contain to the ERP system – steps that would otherwise have to be performed manually. If a sales employee corrects line items that may have been wrongly interpreted on scanning, the software learns from the correction and will be able to interpret the order properly next time. Once an order has been processed, the customer is sent a link to our Onlineshop with an order confirmation. In the future, the Kloeckner Assistant will also be able to take orders by text email and phone and then enter them in the ERP system.

Another use for Kloeckner Assistant is faster processing of quote requests – a process that will likewise be automated in the future. Time is of the essence here. In the US, for example, customers are used to requesting quotes for products they want the very next day, and only about a quarter of inquiries lead to an order. Whoever responds first maximizes their chance of getting the customer's order.

In the Onlineshop, order processing is made more efficient by partial automation of the entire process, achieved by automating as many process steps as possible. The process is largely automated from order receipt and processing through to payment. For this purpose, the previous process steps were analyzed in detail to identify inefficiencies and unnecessary manual interventions and then eliminate them by developing smart solutions.

An example with regard to pricing is the Price Affinity tool, which sets customer-specific prices. This supports the sales function in customer-specific pricing, primarily in cross-selling and for our Onlineshop systems. Based on an algorithm developed and continuously improved by the digital unit kloeckner.i, sales employees automatically receive a price matched to the market and customer without having to contact the relevant department. Also, on the sales side, comprehensive analyses of customer behavior are carried out in order to devise sales promotion measures.

In logistics, our main focus in recent years has been on digital processes for the paperless warehouse. The goal now is also to secure efficiency gains in transportation management. Transportation costs are a large component of logistics costs and overall steel distribution costs. There is therefore huge potential here for optimization and cost reduction. Following up on the development of a map-based transport planning tool with route optimizer, an app based on the planning system was then developed with logistics and freight managers in Germany, Austria, the Netherlands, Belgium and the UK. Using the app, truck drivers can record full and correct delivery with a digital delivery note. It also helps provide better base data for freight planning. Key freight logistics data, such as stop time at customer premises and any complaints, is documented online and quickly made available to the freight planner and sales employee. The route is displayed online, providing the ability to react to changes at short notice. Exploiting process optimization opportunities is thus another key step toward sustainably improving the earnings situation. Occupational safety and health also continues to be a high priority.

Alongside site consolidation and network optimization in Europe and the USA as described above, we are also implementing various measures and projects to improve workflows and processes in our operating business. As well as streamlining and focusing procurement and logistics, a notable emphasis in Europe is on more differentiated pricing and other measures to boost effectiveness and efficiency in sales, such as better sales control. With regard to logistics activities, we completed a major project to reorganize and optimize stockholding logistics in our Benelux organization during the reporting year in order to deliver even better on our customer promise as an agile, service-oriented, digitalized supplier. As our chief competitors comprise a host of small and medium-sized enterprises, we are exploiting our economies of scale across business units and national borders to delineate ourselves more distinctly than ever from that competition. This applies especially to the core strategic areas just mentioned.

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

To achieve greater differentiation from competitors, we plan to maintain our broad product portfolio as well as to offer customers more higher value-added products and services. The prime focus here is on customers whose strong vertical integration provides greater scope for us to successfully and profitably sell them such services. More and more, we also supply customers from our network rather than solely from individual sites. [This enables us to supply a broader portfolio of steel and metal products, especially in comparison with smaller and mid-size competitors, without adding to inventories.] In procurement, we will continue to systematically leverage the economies of scale we have over many competitors. We target major scale economies by focusing quantity requirements on suppliers who grant commensurate terms and by making intensive use of global procurement options. Both in Europe and the USA, this similarly applies not only to materials procurement, but also to procurement of non-merchandising items and services in order to combine and optimize these across national borders, regions and sites.

At the same time, digitalization enables us to apply the working methods and tools of business start-ups so as to be more agile, faster and more effective in our operations as well as to create added value for customers. With this in mind, we have a diverse range of digital tools in deployment across our various country organizations. Based on such solutions, we are committed to making all processes simpler and more efficient along the entire value chain. To this end, we launched kloeckner.i, our digitalization hub in Berlin, back in 2014 to develop and test digital solutions before rolling them out across the Group. The hub serves the purposes of intra-Group knowledge transfer, maintains a network with the start-up scene and operates in the areas of Product Management, Software Development, Data Science & AI, Business Intelligence & Analytics, Online Marketing and User Experience & Design. For example, kloeckner.i works jointly with our country organizations to develop digital applications using agile methods while involving customers from an early stage to test functionality and increase customer benefit step by step.

On the sales side, we have successfully rolled out Contract Portals and Onlineshops to customers, among other activities, and are progressively opening the Onlineshops to providers of complementary products, thus developing them into a marketplace. This will enable us to offer our customers a considerably wider range of products without having to invest in expanding our product portfolio. In procurement, we have full electronic digital interchange with wholesalers and major steel producers.

While kloeckner.i operates like an internal start-up, our venture capital company, kloeckner.v, which we launched in 2015, establishes links with external start-ups. At kloeckner.v, we invest via selected venture capital firms and also make direct investments in start-ups that support our digitalization strategy with disruptive approaches.

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

[Finally, we also set ourselves apart from the competition through our state-of-the-art technologies and systems, which we fine-tune on an ongoing basis. These gave us a competitive advantage especially at the beginning of the pandemic.] As mentioned earlier, however, we also use them on the operational side for purposes such as taking customer analysis and service to even higher professional levels. In-house, we harness global collaboration solutions to improve the exchange of information as well as raise the efficiency and effectiveness of collaboration, which is invaluable, especially with employees working from home. Furthermore, via a structured management review process, leadership programs and training, we ensure continuous development of our management potential so that we can continue to make optimum use of business opportunities for Klöckner & Co.

Overall statement on the opportunity situation of the Group

Klöckner & Co's most significant opportunity is digitalization and transformation into a platform company, as described above. The pandemic opened up the opportunity for us to use the crisis, by means of comprehensive restructuring in our core business, to place our Company on a solid footing for the future and to enable both sustainable profitability and growth. As a result of this and our accelerated transformation, supported where applicable by selective acquisitions, we believe that Klöckner & Co is well positioned to take advantage of opportunities as they arise.

6. Group forecast

Despite the ongoing COVID-19 pandemic, we expect a significant increase in real steel demand for our core markets of Europe and the USA in fiscal year 2021. While it appears that, at the earliest, the pandemic will not be overcome until later in the year and to that extent the related risks therefore still apply, we expect for 2021 as a whole that the economic recovery in our customer sectors will continue. In light of this, we also expect a considerable increase in shipments and, as a result, corresponding growth in Group sales.

Our operating income (EBITDA) was hit hard in the reporting year by the outbreak and spread of COVID-19 and the associated containment measures. We responded immediately and decisively to the crisis by launching the Surtsey transformation project. In undertaking this project, we are taking advantage of the opportunities presented by the crisis by accelerating the digital transformation of Klöckner & Co and, in addition, implementing necessary restructuring measures. Due to the digitalization and restructuring effects resulting from Surtsey combined with the accelerating economic recovery, and supported by a positive start-of-year price trend, we expect a considerable increase in EBITDA before material special effects compared to the prior year. Over the course of the fiscal year, we will also realize substantial positive special effects from sales of assets as part of Surtsey.

After the very strong cash flow from operating activities in the reporting year, and partly because of noticeably higher prices for steel and metal products and of cash outflows in connection with restructuring measures under the Surtsey project, we expect a considerably lower operating cash flow relative to 2020.

	Turnover (Tto)		Sales (€ million)	
Forecast by segment	2020	Forecast 2021	2020	Forecast 2021
Kloeckner Metals US	2,339	Considerable increase	2,076	Considerable increase
Kloeckner Metals Switzerland	542	Slight increase	914	Slight increase
Kloeckner Metals Services Europe	815	Considerable increase	607	Considerable increase
Kloeckner Metals Distribution Europe	1,177	Slight increase	1,533	Slight increase
Holding and other group companies	-		-	
Group	**4,873**	**Considerable increase**	**5,130**	**Considerable increase**

	EBITDA before material special effects (€ million)		Cash flow from operating activities (€ million)	
	2020	Forecast 2021	2020	Forecast 2021
Kloeckner Metals US	50	Considerable increase	85	Considerable decrease
Kloeckner Metals Switzerland	62	Considerable decrease	62	Considerable decrease
Kloeckner Metals Services Europe	19	Considerable increase	29	Considerable decrease
Kloeckner Metals Distribution Europe	7	Considerable increase	10	Considerable decrease
Holding and other group companies	– 27		– 25	
Group	**111**	**Considerable increase**	**161**	**Considerable decrease**

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

Duisburg, February 25, 2021

The Management Board

7. Corporate Governance Statement

The following Corporate Governance Statement pursuant to Section 289f (1) sentence 2 and Section 315d of the German Commercial Code (HGB) is issued jointly by the Management Board and the Supervisory Board, with the Management Board and the Supervisory Board each responsible for their respective parts. The Corporate Governance Statement also includes a report on the Company's corporate governance (Principle 22 of the German Corporate Governance Code). Except as otherwise indicated, all references relate to the German Corporate Governance Code in the version of December 16, 2019 published on March 20, 2020 (also referred to in the following as the Code).

Declaration of Conformity 2020 and Application of the German Corporate Governance Code

The Management Board and Supervisory Board of Klöckner & Co SE are required under Section 161 of the German Stock Corporation Act (AktG) to submit an annual declaration stating that the recommendations of the Government Commission on the German Corporate Governance Code published by the Federal Ministry of Justice and Consumer Protection in the official section of the Federal Gazette have been and continue to be complied with, or listing those recommendations that have not been or will not be complied with and, if applicable, the reasons why. In the year under review, the Management Board and Supervisory Board of Klöckner & Co SE once again paid close attention to meeting the recommendations and suggestions of the Code. The last annual Declaration was submitted in December 2020. It is reprinted below and is also available on the Klöckner & Co SE website. All Declarations of Conformity previously submitted are also available on the website.

2020 Joint Declaration of Conformity by the Management Board and the Supervisory Board of Klöckner & Co SE pursuant to Section 161 of the German Stock Corporation Act on the German Corporate Governance Code

Klöckner & Co SE had complied with all recommendations of the German Corporate Governance Code in the version of February 7, 2017 (published on April 24, 2017 in the Federal Gazette) since the last Declaration of Conformity dated December 17, 2019.

Except for the deviations listed below, Klöckner & Co SE had, as of their entry into force, also complied with all recommendations of the German Corporate Governance Code in the version of December 16, 2019 (published on March 20, 2020 in the Federal Gazette) and will comply with those in future:

C.10:
Pursuant to provision C.7 of the Code it may indicate a lack of independence with respect to the company if a member of the Supervisory Board belongs to it for more than 12 years. Prof. Vogel is a member of the Supervisory Board as of May 31, 2006, is its chairman and the chairman of its presidium (being the committee responsible for the remuneration of the Management Board). Albeit the Management Board and the Supervisory Board see no indication for a lack of independence with respect to Prof. Vogel, against the background of provision C.7 of the Code and as a matter of precaution, a deviation is declared with regard to Recommendation C.10.

In the view of the Management Board and the Supervisory Board it is in the interest of the company that Prof. Vogel remains in the Supervisory Board of the company and as its chairman and the chairman of the presidium, even if the term stated in the Code is exceeded. The value of Prof. Vogel for the work of the Supervisory Board should be beyond any doubt. Beside his professional and personal qualifications as well as his experience, particularly as chairman of supervisory bodies, Prof. Vogel also has, due to the long term of his membership to the Supervisory Board, a notably deep knowledge of the Company. Furthermore, the Management Board and the Supervisory Board appreciate the continuity represented by Prof. Vogel – particularly against the background of the personal changes during the last years.

Apart from that, with respect to Prof. Vogel, the Management Board and the Supervisory Board, both do not share the concern behind the provision C.7 of the Code that there is an increased risk of conflicts of interest the longer a person belongs to the Supervisory Board. The Supervisory Board continuously monitors the occurrence of potential conflicts of interest with regard to all of its members. Until now, with respect to Prof. Vogel no situation giving rise to a risk of conflict of interest has occurred and there is no reason at hand why such risk should be assumed solely because a certain term of membership is exceeded.

G.1:
Recommendation G.1 of the Code comprises several provisions regarding the content of the remuneration system for the Management Board which is resolved by the Supervisory Board. Those provisions already consider the new Act for Implementing the Second EU Shareholder Rights Directive (ARUG II).

The remuneration system for the Management Board currently in place was approved by the general meeting in 2016. However, it does not comply to the new recommendation G.1 of the Code in all aspects. As already announced in the Annual Report for the fiscal year 2019 and in accordance with the transitional provisions of the ARUG II, an adapted remuneration system is to be proposed to the general meeting in 2021. Such adapted remuneration system will then also comply with the requirements of recommendation G.1 of the Code.

Duisburg, Germany, December 14, 2020

The Supervisory Board The Management Board

APPLICATION OF THE GERMAN CORPORATE GOVERNANCE CODE

Responsible corporate governance is given high priority at Klöckner & Co. Good corporate governance denotes responsible business management and control by the Management Board and the Supervisory Board, geared towards sustained value creation.

In applying the recommendations and suggestions of the Code as our guidance, Klöckner & Co advances the Code's binding objective for German listed companies of promoting the confidence of domestic and international investors, customers, employees and the general public in the management and supervision of the Company. Except as set out above, the recommendations of the Code as most recently amended and of the Code in the version of February 7, 2017 respectively were complied with in the year under review. The Management Board and Supervisory Board fundamentally treat suggestions in the German Corporate Governance Code no differently from recommendations. All suggestions in the Code as most recently amended and in the Code in the version of February 7, 2017 were complied with in the reporting year with two exceptions:

Suggestion A.5 of the Code, and Section 3.7 of the Code in the version of February 7, 2017, states that in the event of a takeover offer, the Management Board should convene an extraordinary General Meeting at which shareholders will discuss the takeover offer and, if appropriate, decide on corporate actions. Convening a General Meeting poses organizational challenges – even considering the reduced notification periods provided for in the Securities Acquisition and Takeover Act (WpÜG) – and ties up considerable personnel and financial resources. It appears questionable whether the expense involved would also be justified in those cases in which the Annual General Meeting is not required to vote on such matters. For this reason, extraordinary general meetings should be convened only in appropriate cases.

In accordance with Section 4.2.3 (2) sentence 9 of the Code in the version of February 7, 2017, Management Board members should not receive early disbursements of multiple-year, variable remuneration components. At Klöckner & Co SE, Management Board members receive a multiple-year, variable remuneration component in the form of their personal investments in Company shares with a three or four-year vesting period. In the reporting year, the contract with Mr. Rühl provided for personal investment shares to be released early in the event of termination due to a change of control. Although it is not entirely clear to the Company whether the end of the vesting period for the personal investment in shares counts as a "disbursement" within the meaning of the aforementioned suggestion, the precaution has been and is taken of declaring non-compliance. On extension of the contract concerned beyond the reporting year, the change-of-control provision and thus the possibility of early release of personal investment shares was removed with effect of January 1, 2021.

The contracts with Management Board members Gisbert Rühl, Dr. Oliver Falk and John Ganem were entered into prior to publication of the Code as most recently amended. As set out in the rationale of the Code with regard to Section G.I of the Code, the amendments to the Code do not have to be taken into account in Management Board contracts that are already in place; such contracts therefore continue to be subject to the Code in the version of February 7, 2017. This was complied with in the reporting year with the exception of the deviation described above. It is planned for the contracts concerned to be brought in line with the stipulations of the new Code the next time they come up for revision.

Procedures of the Management Board and the Supervisory Board, and composition and procedures of their committees

Klöckner & Co SE is a European Company under German law whose Articles of Association stipulate a two-tier management system as for a German stock corporation (Aktiengesellschaft). The two-tier system is characterized by strict separation, with no shared membership, between the executive decision-making body (the Management Board) and the advisory and supervisory body (the Supervisory Board). The Management Board and Supervisory Board work closely together to promote the Company's interests. Maintaining a trusting, intensive and ongoing dialog between the two bodies provides a sound basis for responsible and efficient corporate management.

MANAGEMENT BOARD

The Management Board must act in accordance with the interests of the Company and work toward increasing enterprise value on a lasting basis. The Management Board of Klöckner & Co SE bears full responsibility for management of the Group and the Group holding company, taking into account the needs of all stakeholders. It sets the targets and the strategies for the Group and its segments as well as the country organizations and defines the guidelines and principles for the resulting corporate policy. Corporate strategy is developed by the Management Board in consultation with the Supervisory Board. The Management Board discharges its management responsibility as a collegiate body with joint responsibility for management of the Company. Notwithstanding the overall responsibility borne by all Management Board members, the individual members each manage their allotted responsibilities on their own within the framework of the Management Board resolutions. The members of the Management Board keep each other informed with regard to important measures and developments in their responsibilities. The Chairman coordinates the work of the Management Board and, in particular, organizes and chairs the Management Board meetings. Responsibilities of the Management Board include preparing the Company's interim reports and interim management statements, its annual financial statements and consolidated financial statements as well as the combined management report of Klöckner & Co SE and the Klöckner & Co Group. Moreover, the Management Board must ensure that all legal provisions, official regulations and corporate guidelines are adhered to and take steps to ensure that these are also adhered to by the Group companies (compliance). It also ensures adequate risk management and risk control; as a preventive measure, it has set up an internal control system (ICS).

In the past fiscal year, the Management Board of Klöckner & Co SE comprised three members until August 31, 2020 and from September 1, 2020 four members, who are appointed and dismissed by the Supervisory Board in accordance with the European Company Regulation, the German Stock Corporation Act (AktG) and the Articles of Association: Chairman of the Management Board Gisbert Rühl, Deputy Chairman of the Management Board Guido Kerkhoff (member of the Management Board since September 1, 2020), Chief Financial Officer (CFO) Dr. Oliver Falk and Management Board member and CEO Americas John Ganem.

The work of the Management Board is governed, among other factors, by the Rules of Procedure and the schedule of responsibilities laid down by the Supervisory Board. The Rules of Procedure state the responsibilities in each Management Board portfolio, matters that are reserved for the full Management Board, decision-making procedures as well as the rights and obligations of the Chairman of the Management Board. They also contain rules on reporting to the Supervisory Board and a list of transactions for which the Management Board requires Supervisory Board approval. Such approval is necessary for all significant, high-risk or unusual transactions as well as for decisions of fundamental importance to the Company. The Rules of Procedure require the Management Board to hold meetings at least once a month, although the Management Board usually meets twice monthly. At such meetings, the Management Board coordinates its work and makes joint decisions.

In addition to 22 Management Board meetings in the reporting year, the members of the Management Board held coordinating discussions on numerous occasions and met or held conference calls with the management teams of the major segment country organizations.

The outbreak of the global COVID-19 pandemic also impinged upon the work of the Management Board in the reporting year. Already at an early stage, a central crisis team was established that reported to the Management Board regularly (at first weekly and then fortnightly) and when necessary on an ad-hoc basis regarding the impact of the pandemic on the Group and about programs of measures devised jointly with local crisis teams at the country organizations (e.g. hygiene concept, status report on cases of illness and measures taken). Coordination was also stepped up with the country organizations in order to closely monitor the effects on the operating business and to be able to take any countermeasures. Finally, there was an in-depth exchange with the Supervisory Board; among other things, the CEO provided the Supervisory Board with weekly and later on with fortnightly status reports on the main outcomes from the work of the crisis teams, together with accompanying reports on the current business situation of the Group. In addition, at a very early stage, the Management Board analyzed the Company's financing and liquidity situation, assuming various scenarios for the course of the pandemic and corresponding impacts on the market and business conditions. Last but not least, the Management Board took advantage of framework conditions created by the pandemic to implement the Surtsey project, that, in addition to its restructuring measures, is significantly accelerating the Company's digital transformation.

SUPERVISORY BOARD

The Supervisory Board of Klöckner & Co SE regularly advises the Management Board and oversees the latter's management of the Company. The Supervisory Board approves the annual budget, the financing arrangements and the annual financial statements of Klöckner & Co SE and the Klöckner & Co Group, the combined management report, the Group non-financial report and any dependency report, taking into account the auditor's reports and the Corporate Governance Statement. In addition, the Supervisory Board is involved in monitoring the Company's adherence to legal provisions, official regulations and corporate guidelines (compliance), and dealing with the internal control system, the risk management system and data protection management. Responsibilities of the Supervisory Board also include the appointment and dismissal of members of the Management Board, Management Board remuneration, and allocating areas of responsibility among the members of the Management Board.

The Supervisory Board of Klöckner & Co SE comprises six members, all of whom represent shareholders and are generally elected by the Annual General Meeting. The Chairman of the Supervisory Board is Prof. Dieter H. Vogel; his deputy is Dr. Ralph Heck. As with all members of the Supervisory Board, both have extensive experience in managing and/or supervising international corporations and possess the high level of professional expertise required to carry out their duties. Costs of external training for Supervisory Board members are borne by the Company. The following Supervisory Board members are independent within the meaning Recommendation C.6 of the Code: Dr. Ralph Heck, Prof. Tobias Kollmann and Ute Wolf. Prof. Köhler and Prof. Loh are dependent on SWOCTEM GmbH, this being a shareholder in the Company which now is to be qualified as a controlling shareholder due to its (recurring) simple majority of votes at the 2020 Annual General Meeting. With regard to Prof. Dieter H. Vogel, non-independence from the Company and the Management Board is declared purely as a precautionary measure due to his membership of the Supervisory Board for more than 12 years (see Recommendation C.7 of the Code), although the Supervisory Board does not see any risk of conflicts of interest. In fact, it is in the interest of the Company that Prof. Dieter H. Vogel remains in the Company's Supervisory Board even if the term stated in the Code is exceeded (see the further information in the Declaration of Conformity). No members of the Supervisory Board are former members of the Company's Management Board.

The Management and Supervisory Boards work closely and trustfully together for the good of the Company: The Supervisory Board is directly involved in decisions of fundamental importance to the Company. It also consults with the Management Board on the Company's strategic positioning and regularly discusses with it the development and the status of strategy implementation. The Chairman of the Supervisory Board coordinates the work of the Supervisory Board and chairs the meetings of the plenary Supervisory Board. Within reasonable limits, he conducts discussions with investors on Supervisory Board-related matters. In the reporting year, regular meetings of the Supervisory Board were conducted in English, with parts of meetings when the Management Board was not in attendance conducted in German; all committee meetings were conducted in German. The Supervisory Board maintains an ongoing, intensive dialog with the Management Board to ensure that it stays abreast of business policy and the business situation, corporate planning and strategy.

Moreover, the Management Board provides regular, timely and comprehensive written and verbal reports to the Supervisory Board. Written reporting centers around the monthly Board Reports, which provide information on the financial position, cash flows and financial performance of the Group and its segments. The reports also cover capital market developments, macroeconomic indicators relevant to Klöckner & Co SE, an assessment of the Company's situation compared with the rest of the industry as well as trends in steel and metal prices. The Supervisory Board regularly reviews the structure of the board reports agreed with the Management Board; this was revised during the reporting year in terms of structure, presentation and a number of key figures. Items on the agenda at Supervisory Board meetings regularly include the overall economic situation, the industry situation, the business performance of the Group and its operating segments and the performance of Klöckner & Co's share price relative to industry peers. Further information on the work of the Supervisory Board in the reporting year can be found in the Report of the Supervisory Board in this Annual Report.

In accordance with the Supervisory Board's Rules of Procedure, resolutions are adopted by simple majority unless otherwise stipulated by law or by the Articles of Association. As in past years, all resolutions were adopted with no opposing votes in the year under review.

SUPERVISORY BOARD SELF-ASSESSMENT

Once a year, the Supervisory Board evaluates and reviews the efficiency of its activities in the form of a self-assessment, with a detailed assessment every two years. As the previous detailed assessment was carried out in fiscal year 2018, an additional detailed self-assessment took place according to schedule in the reporting year. This was carried out – without the assistance of an external consultant – in the form of a combination of a detailed assessment questionnaire to be filled out by the members of the Supervisory Board and individual discussions between the Chairman of the Supervisory Board and the individual Supervisory Board members. The results were evaluated by the Chairman of the Supervisory Board and discussed at the December meeting of the Executive Committee and of the full Supervisory Board. The Supervisory Board does not consider any changes to be necessary in the preparation, procedure or agendas of its meetings, or in the manner in which tasks are delegated between the plenary Supervisory Board and its committees. It considers the division of its work to be well balanced between strategic issues, advisory activities and supervisory duties. As a further outcome of the assessment, the stipulations requiring the Management Board to obtain Supervisory Board approval for certain transactions and measures were revised in agreement with the Management Board. This shall in particular serve to further intensify the project related exchange with the Management Board. The Supervisory Board prepares detailed annual reports for the Annual General Meeting on its work and the main focus of its activities for each fiscal year (p. 14 et seq.).

SUPERVISORY BOARD COMMITTEES

The plenary work of the Supervisory Board is supplemented by its committees. The Supervisory Board has established the following committees: a three-member Executive Committee and an Audit Committee, which also has three members. The Executive Committee additionally serves as Nomination Committee and Personnel Committee. No additional committees have been established in view of the relatively small number of Supervisory Board members and the resulting high level of efficiency in plenary work. The committees' chairpersons report regularly and comprehensively to the plenary Supervisory Board on the agendas and outcomes of the committee meetings.

EXECUTIVE COMMITTEE

The Executive Committee is composed of the Chairman of the Supervisory Board as Committee Chairman, his Deputy Chairman and one additional member. Thus, the Chairman of the Executive Committee is Supervisory Board Chairman Prof. Dieter H. Vogel. The remaining members of the Executive Committee are Dr. Ralph Heck, Deputy Chairman of the Supervisory Board, and Prof. Friedhelm Loh.

In accordance with the Rules of Procedure, the Executive Committee also acts as a Personnel Committee for the purpose of preparing staffing decisions at Management Board level. The Executive Committee proposes suitable candidates to the Supervisory Board for appointing them as members of the Management Board and in particular makes proposals with regard to their remuneration and the remuneration system of the Management Baord at a whole. It also advises on long-term succession planning for the Management Board (see LONG-TERM SUCCESSION PLANNING on page 99). It furthermore fulfills the function of a Nomination Committee, in which capacity it proposes suitable candidates to the plenary Supervisory Board for election to the Supervisory Board at the Annual General Meeting.

AUDIT COMMITTEE

The primary task of the Audit Committee is to review the accounting process and the effectiveness of the internal control system, the risk management system and the internal audit system, the audits of the financial statements (notably with regard to the pre-selection, engagement and verification of the independence of the auditor, the services additionally rendered by the auditor, issuance of the audit engagement to the auditor, the establishment of focal points for the auditor's activities, and fee arrangements), and compliance, as well as the preparation of the Supervisory Board review of the Group non-financial report and any dependency report. The Supervisory Board has also entrusted the Audit Committee with discussing the half-year financial Group report and the quarterly statements with the Management Board ahead of publication and preparing the Supervisory Board resolution on approval of the annual and consolidated financial statements. The Chairwoman of the Audit Committee, Ute Wolf, is an (independent) financial expert within the meaning of Section 100 (5) of the German Stock Corporation Act (AktG) and Recommendation D.4 of the Code respectively and, based on multiple years of service as Chief Financial Officer of a listed major international chemicals group, has specific expertise and experience in applying financial reporting principles and internal control systems. Alongside Committee Chairwoman Ute Wolf, the other members of the Audit Committee are Supervisory Board Chairman Prof. Dieter H. Vogel and Prof. Karl-Ulrich Köhler. The Audit Committee possesses the necessary sector expertise.

MEETINGS OF THE SUPERVISORY BOARD AND ITS COMMITTEES

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

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

In accordance with Principle 11 of the Code, the Supervisory Board is to be composed in such a way that, taken together, its members possess the knowledge, skills and professional experience required for the proper execution of their duties and in compliance with the statutory gender quota.

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

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

Another objective laid out in the Rules of Procedure is that two-thirds of the members of the Supervisory Board should be independent within the meaning of Section 5.4.2 of the Code (in the version of February 7, 2017), taking into account the ownership structure. In assessing the independence of its members, the Supervisory Board takes into consideration the aspects referred to in Recommendation C.7 of the Code and the criteria specified in the recommendation by the European Commission of February 15, 2005 (Appendix 2 to the Commission's recommendation of February 15, 2005 regarding the duties of non-managing directors/supervisory board members/listed companies and regarding management/supervisory board committees [2005/162/EC]). In addition, to avoid potential conflicts of interest, the Supervisory Board members should not be employed by customers, suppliers, lenders or other comparable third parties (particularly significant business partners or competitors of the Klöckner & Co Group) unless such parties are controlling shareholders of the Company. Furthermore, no more than two former members of the Company's Management Board should be part of the Supervisory Board and the Supervisory Board member who chairs the Audit Committee must be independent and must not be a former member of the Company's Management Board whose appointment ended less than two years earlier.

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

The requirements for nomination to membership on the Supervisory Board depend among other factors on which of the above objectives and criteria are to be prioritized in light of the Supervisory Board's current composition.

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

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

Finally, the Supervisory Board also has an appropriate number of independent members. In the assessment of the Supervisory Board, Dr. Ralph Heck, Prof. Tobias Kollmann and Ute Wolf are currently independent within the meaning of Recommendation C.6 of the Code (see SUPERVISORY BOARD on page 92). That equates to half of the members of the Supervisory Board. It should be noted, however, that in respect of Prof. Friedhelm Loh and Prof. Karl-Ulrich Köhler – solely due to the fact that SWOCTEM GmbH now qualifies as a controlling shareholder – one-third of the Supervisory Board is no longer considered independent. The profile of skills and expertise in the Supervisory Board Rules of Procedure therefore expressly incorporates the proviso taken from Section 5.4.2 of the Code in the version of February 7, 2017 (corresponds to Recommendation C.6 of the Code) that the appropriate number of independent members stated in the profile must be viewed in light of the shareholder structure. Consequently, the two-thirds proportion stipulated as the rule is to be interpreted accordingly in this case. The Supervisory Board therefore considers the present quota of half of the Supervisory Board members to be appropriate in terms of the profile of skills and expertise. In case of a higher number, all other members not attributable to the controlling shareholder would need to be independent – irrespective of the grounds cited for rejecting the assertion of independence. As the proviso concerning shareholder structure shows, this is not an intended outcome of the profile of skills and expertise and would unduly restrict freedom of choice regarding other members – especially as it would even be sufficient under the Code for just one Supervisory Board member to be independent of the controlling shareholder (see Recommendation C.9 of the Code). In terms of independency of the Company and the Management Board within the meaning of Recommendation C.7 of the Code only - and solely as a precaution (see above) - Prof. Dieter H. Vogel is considered not to be independent. The Code requirement in this regard that over half of all Supervisory Board members shall be independent of the Company and the Management Board is therefore likewise satisfied.

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

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

DIVERSITY POLICY FOR COMPOSITION OF THE MANAGEMENT BOARD

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

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

Gender:
The target for the percentage of women in the Management Board is 0% (see "ACT ON EQUAL PARTICIPATION OF WOMEN AND MEN IN LEADERSHIP POSITIONS," on page 100).

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

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

OBJECTIVES OF THE DIVERSITY POLICY FOR COMPOSITION OF THE MANAGEMENT BOARD

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

The target for the percentage of women on the Management Board has been introduced by the Act on Equal Participation of Women and Men in Leadership Positions and is intended to help increase the percentage of women executives. As the target for the Management Board, the Supervisory Board set a figure of 0% in fiscal year 2017 based on the size and composition of the Management Board at that time. No new appointments or changes of appointments were then planned or foreseeable. The Supervisory Board is aware of the importance of this topic. However, it is severely constrained here by market and industry conditions. This was once again the case on the addition to the Management Board in the reporting year and the search for a candidate to succeed Mr. Rühl as CEO in fiscal year 2021 respectively. Here again, the Personnel Committee considered the possibility of appointing a woman, but was unable to identify any female candidates whose profile appeared comparatively suitable to that of Mr. Kerkhoff. This notably applies with a view to his previous management board positions at large listed companies (most recently as CEO of thyssenkrupp) and his relevant sectoral knowledge. In light of this, the target has remained unchanged.

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

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

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

IMPLEMENTATION OF THE DIVERSITY POLICY FOR COMPOSITION OF THE MANAGEMENT BOARD

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

Within the Supervisory Board, human resources and succession planning is the responsibility of the Executive Committee which, acting in its capacity as Personnel Committee, submits proposals to the full Supervisory Board. To the extent indicated by the actual composition of the Management Board, the Executive Committee and the Supervisory Board regularly consult with the Chairman of the Management Board on any suitable internal and external candidates, including with a view to successions. Detailed information is provided under "Long-term succession planning." Alongside other requirements in terms of personality and qualifications, and to the extent that the executive market allows, the above-mentioned diversity aspects for Management Board appointments are also taken into consideration in Supervisory Board decisions with regard to succession planning.

OUTCOMES FOR THE MANAGEMENT BOARD IN FISCAL YEAR 2020

In the opinion of the Supervisory Board, the current members of the Management Board ensure an appropriate degree of diversity on the Management Board, in particular through their careers as well as their respective educational and professional backgrounds. Internationality was further strengthened by the appointment of John Ganem to the Management Board in 2019. In terms of length of service, the members of the Management Board – with the exception of Gisbert Rühl – have only been in office since 2019 (Dr. Oliver Falk and John Ganem) and 2020 (Guido Kerkhoff). However, this should be seen in light of Guido Kerkhoff's sectoral knowledge due to his previous position at thyssenkrupp and of decades with the Company in the case of Dr. Oliver Falk and John Ganem. With regard to age structure, the average age of the Management Board will fall further as a result of Guido Kerkhoff taking over as CEO and Gisbert Rühl leaving the Management Board in the coming fiscal year. Finally, the current Management Board composition is also consistent with the existing 0% target ratio for the percentage of women on the Management Board.

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

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

LONG-TERM SUCCESSION PLANNING

Long-term succession planning for the Management Board is the responsibility of the Executive Committee and the Supervisory Board and is carried out jointly with the Management Board, taking into account the profile of skills and expertise. The Executive Committee discusses long-term succession planning at regular intervals and coordinates on it with the existing Management Board. Long-term succession planning takes into account, in particular, corporate strategy, the existing composition of the Management Board, and the aspect of diversity. Both internal and external candidates are considered for future appointments. In-house candidates comprise various members of the first management level below the Management Board (in particular, country organization CEOs and CFOs), who have regular opportunities to demonstrate their capabilities at meetings of the Supervisory Board and its committees. From time to time, the Executive Committee prepares profiles of requirements and, on that basis, shortlists internal candidates or initiates a search for external candidates. In the next step, candidates are invited for structured interviews. The Executive Committee then provides the Supervisory Board with its nominations for candidates. If deemed necessary, the Executive Committee may make use of outside consultants when compiling profiles of requirements and selecting candidates.

DIVERSITY POLICY FOR COMPOSITION OF THE SUPERVISORY BOARD

In accordance with the Supervisory Board's Rules of Procedure, its members must, as a general rule, possess the knowledge, skills and professional experience required for the proper execution of their duties. Taking into consideration the interests of the Company, the aspect of diversity also has to be taken into account, with the aim of attaining a Supervisory Board that is as diverse as possible in terms of age and gender as well as educational and professional background. The requirements profile for nomination of a Supervisory Board member is largely driven by which of the above objectives and criteria are to be prioritized in light of the Supervisory Board's composition at the time (see "PROFILE OF SKILLS AND EXPERTISE/OBJECTIVES FOR THE COMPOSITION OF THE SUPERVISORY BOARD/REQUIREMENTS PROFILE FOR SUPERVISORY BOARD MEMBERS," on page 95).

OBJECTIVES OF THE DIVERSITY POLICY FOR COMPOSITION OF THE SUPERVISORY BOARD

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

With regard to the participation of women in leadership positions, the Supervisory Board set a target of 16.6% in 2017 (see "ACT ON EQUAL PARTICIPATION OF WOMEN AND MEN IN LEADERSHIP POSITIONS," on page 100).

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

IMPLEMENTATION OF THE DIVERSITY POLICY FOR THE SUPERVISORY BOARD

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

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

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

OUTCOMES FOR THE SUPERVISORY BOARD IN FISCAL YEAR 2020

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

With respect to the age structure of the Supervisory Board, Prof. Vogel exceeds the regular age limit of 75. However, allowance must be made for the fact that the limit is merely intended as a guide and that extensive changes were made on the Supervisory Board between 2015 and 2018 and also on the Management Board in the last few years. In this light, the continuity represented by Prof. Dieter H. Vogel is to be welcomed. His professional and personal qualifications are beyond any doubt. Moreover, the age range of 50 to 79 for the entire Supervisory Board is considered balanced and appropriate. The same applies to the length of service of the individual members (approx. 3 to 14 years).

From the point of view of the Supervisory Board, its composition meets the selected diversity targets. In particular, its members present a welcome mix of industries as well as occupational and educational backgrounds, as can be seen from their CVs, which are published on the website and updated annually. The diversity criterion of internationality has also been met: Dr. Ralph Heck is a Belgian national whose permanent residence is in Switzerland. The age structure and the length of service on the Supervisory Board are balanced. At present, the Supervisory Board thus sees no acute need for further action with regard to diversity on the Supervisory Board. With a view to the upcoming Supervisory Board elections in fiscal year 2021, the Supervisory Board will take the described diversity criteria as well as the profile of skills and expertise into account to the best possible extent when deciding on the candidates it proposes to the Annual General Meeting.

ACT ON EQUAL PARTICIPATION OF WOMEN AND MEN IN LEADERSHIP POSITIONS

Pursuant to the German Act on Equal Participation of Women and Men in Leadership Positions, (i) the Supervisory Board established targets for women on the Supervisory Board and the Management Board and (ii) the Management Board established targets for women at the upper two leadership levels below Management Board level. The date for reaching the targets has been set for June 30, 2022.

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

The Management Board established the following targets for women at the upper two leadership levels below Management Board level in fiscal year 2017: 33.3% for level 1 and 20% for level 2. Both targets are also to be met by June 30, 2022. Level 1 generally comprises head of corporate department functions, while level 2 consists of department head functions. As of December 31, 2020, the percentage of women was 11% at level 1 and 0% at level 2. The targets were not met in the 2020 reporting year. The background to this is that in level 1, our female CIO is assigned organizationally to Klöckner Shared Services; all other changes at Level 1 and Level 2 in 2020 involved appointments of exclusively in-house, albeit male, talents. This still reflects a good talent pipeline despite the lack of female appointees in the reporting year relative to prior years. No external recruitment was carried out in the reporting year for these levels as in-house talent was required to be preferred and constituted an excellent fit for the positions concerned. Additionally, three female managers have now been promoted to level 3.

ANNUAL GENERAL MEETING

The shareholders of Klöckner & Co SE exercise their rights, including their voting rights, at the Annual General Meeting. The most recent Annual General Meeting took place in Düsseldorf on May 20, 2020. Against the backdrop of the COVID-19 pandemic that broke out in spring 2020, the Annual General Meeting was held as a virtual meeting without shareholders physically present. This option was provided by the legislature at short notice in the reporting year to enable general meetings to be held while avoiding risks to the health of shareholders and others involved.

The next Annual General Meeting is scheduled for May 12, 2021. Basically, the Company plans to hold an in-person meeting. However, as it remains difficult to predict developments relating to the COVID-19 pandemic in Germany, the Company cannot rule out – and reserves to decide – that the Annual General Meeting on May 12, 2021 will once again be held as a virtual Annual General Meeting without the physical presence of shareholders in order to protect the health of shareholders and others involved. The Management Board and Supervisory Board have resolved that the shareholders shall receive all support and information in accordance with the law, the Articles of Association and the recommendations and suggestions contained in the Code. Klöckner & Co SE publishes the invitation to the Annual General Meeting together with all requisite reports and documents in German and English on its website. The entire Annual General Meeting will be broadcast live to the public on our website.

MANAGERS' TRANSACTIONS (PREVIOUSLY: DIRECTORS' DEALINGS)

Under Article 19 of the Market Abuse Regulation (EU) No 596/2014, members of the Management Board and Supervisory Board as well as individuals and legal entities closely associated with such members are required by law to disclose to Klöckner & Co SE and to the German Federal Financial Supervisory Authority (BaFin) all purchases and disposals of shares or related financial instruments, notably derivatives, insofar as the value of the transactions reaches or exceeds a total of €20,000 in a single calendar year. All such disclosures are published immediately by the Company. Klöckner & Co sends the corresponding documentation to BaFin; the information is furthermore saved in the company register. The reports are also available on the Company's website at https://www.kloeckner.com/en/investors/legal-announcements/managers-transactions.html.

FINANCIAL REPORTING AND AUDIT OF THE FINANCIAL STATEMENTS

Financial reporting by the Klöckner & Co Group is performed in accordance with International Financial Reporting Standards (IFRS). The financial statements of Klöckner & Co SE are prepared in accordance with the German Commercial Code (HGB). For reasons of simplicity and clarity, the management report takes the form of a combined management report covering the annual and consolidated financial statements. By law, the auditor of the annual and consolidated financial statements is elected by the Annual General Meeting. We also ensure adherence to auditor independence stipulations. The auditor and Group auditor appointed by the Annual General Meeting 2020 for fiscal year 2020 is KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin. German public auditors (Wirtschaftsprüfer) Christoph Velder (since 2018, three signatures) and Ulrich Keisers (since 2016, five signatures) are the key audit partners. KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin (or, until 2009, its subsidiary, KPMG Hartkopf + Rentrop Treuhand KG, Wirtschaftsprüfungsgesellschaft, Cologne) has been the auditor for Klöckner & Co SE (or its legal predecessors) since fiscal year 2005. Further information on the proposal made to the Annual General Meeting on the election of the auditors of the annual financial statements and consolidated financial statements for fiscal year 2021 will be published together with the invitation to the 2021 Annual General Meeting on our website at www.kloeckner.com.

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

TRANSPARENCY

Reporting on the Group's situation and on significant events relating to the Group is provided in the Annual Report containing the financial statements and the management report as well as other statutory and voluntary disclosures. Other elements of reporting include the half-year financial report and the quarterly statements published after the first and third quarters. A financial statements press conference – this year probably only in the form of a media conference call – as well as a conference call for analysts and investors are held on publication of the Annual Report. On publication of the quarterly statements and half-year report, we hold conference calls for journalists, analysts and investors. In addition, we organize events and numerous consultations with financial analysts and investors in Germany and internationally, as well as with journalists. Regular dates and events relating to Klöckner & Co SE are listed in the financial calendar on our website. We use the Internet as our main channel of communication for providing shareholders and the public with equal access to timely, comprehensive information. Presentations used during events for financial analysts and investors are in a timely manner made available to the general public on our website. We also publish press releases as needed. Information directly related to Klöckner & Co SE that is likely to have significant influence on the price of Klöckner & Co shares or other financial instruments issued by or associated with the Company is additionally published in ad-hoc announcements as required by the Market Abuse Regulation (EU) No 596/2014. Such matters are governed by a Group policy and an internal committee of experts (ad-hoc committee) who obtain outside advice, particularly on legal issues, as needed.

COMPLIANCE

Ensuring adherence to international regulations and fair conduct toward our business partners and competitors is one of our Company's guiding principles. Klöckner & Co SE (the "Company") considers itself to be bound in this connection not only by statutory and other legal provisions. Voluntary obligations and ethical principles are likewise integral to our corporate culture.

A Compliance Management System (CMS) with an associated compliance organization is installed to ensure compliance.

COMPLIANCE ORGANIZATION

The Company's corporate Compliance Organization consists of the Chief Compliance Officer (who is also the Chief Governance Officer), the Corporate Compliance Office (CCO), the Compliance Committee and the National Compliance Offices (NCOs).

The CCO is part of the Company's GRC organization, which was established during the reporting year. The GRC organization consists of the Compliance, Data Protection, Information Security, Risk Management and Internal Control System departments.

Compliance officers at the NCOs keep local employees informed at regular intervals about relevant applicable legal provisions and internal policies. They serve as points of contact for individual questions as they arise.

BASIC ELEMENTS OF THE CMS

The Company's CMS is divided into the following elements:

1. Prevention
2. Detection
3. Reporting and reaction

The appropriateness, implementation and effectiveness of the CMS are regularly reviewed by both the Corporate Internal Audit Department and an outside expert (most recently at the end of 2016).

PREVENTION

Prevention is the most important fundamental element of the CMS. The aim is to create an awareness of compliance risks within the Company, thus enabling such risks to be identified and avoided at an early stage. Various compliance tools are used to achieve this aim.

"TONE FROM THE TOP" AND ZERO TOLERANCE POLICY

The Company's Management Board has unequivocally expressed its policy with regard to compliance violations in "Tone from the top" published on the Company intranet and website. Breaches of the law, in particular antitrust, anti-corruption, anti-money laundering and human rights violations, are not tolerated in any way and result in sanctions against the offending governing bodies, employees or business partners ("zero tolerance policy").

COMPLIANCE RISK ASSESSMENT

To identify and assess potential compliance risks within the focal areas, the CCO regularly conducts compliance risk assessments with the country organizations. Together with the respective country organization CEOs, the CCO assesses the individual compliance risks in terms of relevance and probability of occurrence for the specific business model together with potential legal and financial impacts on the country organization. On the basis of these assessments, precautionary measures are taken and, where necessary, adjustments made to the CMS.

COMPLIANCE COMMUNICATION AND COMPLIANCE PLATFORM

For compliance communication, the CCO makes use of the Yammer collaboration tool and the Microsoft Teams chat-based virtual workspace. These are used to publish compliance-relevant matters and warnings, for example of current cases of identity fraud. From them, all employees can also directly access the new compliance platform.

The newly developed compliance platform has been available to all employees since June 1, 2020. Implemented as part of our digitalization strategy, the tool serves to further optimize and streamline compliance processes. Modules currently in use on the platform cover requests and approvals ("Ask Compliance"), vetting business partners ("Due Diligence"), a whistleblower system ("Let Us Know"), the Compliance SharePoint and the integrated Case Management Tool. The Compliance SharePoint serves as a "single point of truth" providing all relevant compliance documents, and is administered centrally by the CCO.

CODE OF CONDUCT, DIRECTIVES AND PROCEDURAL INSTRUCTIONS

The Code of Conduct published on the Company website and elsewhere sets out basic rules and principles as a framework for our business activities and social engagement. Members of the Management Board and all managerial personnel are required to lead by example and have heightened responsibility for ensuring that the Code of Conduct is put into practice. Moreover, all employees are called upon to contribute actively in applying and adhering to these principles across their areas of responsibility and to act with integrity in their work within our Company. In the interest of all employees and to avert damage to the Company, directives and procedural instructions are provided that detail permissible conduct. The country organizations publish the Group guidelines and procedural instructions in their area of responsibility and adopt the measures needed to implement the respective requirements.

COMPLIANCE TRAINING

All Group employees are required to participate in a Group-wide training program to raise awareness of our Code of Conduct. The training program is divided into various modules for the different target groups, whose knowledge is kept up to date through regular refresher training sessions. In fiscal year 2020, training focused on the topics of anti-discrimination and fraud prevention. Mandatory training modules are assigned to employees and completion is monitored in an IT-based learning management system.

BUSINESS PARTNER SCREENING AND ANTI-MONEY LAUNDERING

To prevent corruption risks, the Company has established strict rules on hiring intermediaries, whose integrity is assessed with the aid of an external service provider before entering into any contract. This review is repeated at regular intervals according to the assigned risk rating.

All customer and supplier relationships are screened against sanction lists relevant to the Company. For this purpose, the Company uses software from an external service provider.

To prevent money laundering, the Company has severely restricted cash payments. Compliance with due diligence requirements under money laundering legislation is monitored by means of organizational measures and IT-based checks.

MANAGEMENT INTEGRITY SCREENING

The top three levels of management and all board members are subject to integrity screening before engagement or appointment.

SUPPLY CHAIN COMPLIANCE

Further measures relate among other things to supply chain compliance. The Company ensures compliance with supply chain due diligence requirements for raw materials from conflict-affected and high-risk areas and restricts the use of certain hazardous substances in electrical and electronic equipment. Dual-use goods and related foreign trade stipulations are centrally monitored with systemic checks in the IT systems.

CAPITAL MARKET COMPLIANCE

Statutory provisions prohibiting insider trading and personal account trading by executives are supplemented by a Group insider-trading policy governing dealings with information that could potentially impact the price of Company shares as well as transactions in Company securities by board members and employees. Individuals who receive access to insider information as part of their work are registered from that point onwards on an insider list as stipulated in the Market Abuse Regulation.

DETECTION

Compliance violations can be reported anonymously to the CCO. Employees and third parties can report potential violations of our Code of Conduct on the Compliance Platform's landing page and the Company website. A free-of-charge telephone hotline is also available 24/7 worldwide.

As part of regular ICS auditing, compliance-relevant audit areas are audited in compliance audits under the leadership of Internal Audit. Compliance audits are also carried out on an ad-hoc basis together with Internal Audit – in some cases with the additional involvement of third-party subject-matter experts – in order to detect potential compliance violations.

REPORTING AND REACTION

In a regular reporting cycle and in urgent cases on an ad-hoc basis, the Chief Governance Officer (CGO) reports to the Company's entire Management Board and Supervisory Board on current compliance-related developments in the Group.

Furthermore, the CEO, who is ultimately responsible for Compliance, is regularly informed of compliance-related matters through Compliance Risk Assessment reporting and the Compliance Audits as well as during regular compliance meetings and in the annual compliance report.

In line with the Management Board's zero tolerance policy, compliance violations are strictly pursued and sanctioned.

DATA PROTECTION

The Klöckner & Co Group takes great care to protect the privacy of its customers and employees. This is in keeping with the trust placed in us and the rigorous legal requirements on the protection of personal data. Data protection is an integral part of our digitalization strategy, which is centered on customer needs and wishes.

Our data protection management system therefore continued to be subject to a continuous improvement and revision process during the reporting period. This included an EU-wide revision of all proceedings relevant to data protection. A special focal area at the same time was on updating and tightening the internal requirements for the deletion of personal data. Further focus was placed on new developments in data protection of relevance to Klöckner & Co, particularly in the USA. The reporting period also brought the "Schrems II" ruling by the ECJ, which reviewed transfers of data from the EU to third countries.

Group Data Protection, together with Information Security, is a stand-alone unit within Governance, Risk & Compliance and has a direct reporting line to the Management Board. A rolling international training program and extensive communication on data protection issues through our internal social network and intranet ensure that our employees have a high level of data protection awareness.

8. Remuneration Report

The Remuneration Report reproduced below summarizes the salient features of the remuneration systems for the Management Board and the Supervisory Board and describes the structure and the amounts of remuneration in the reporting year.

Management Board compensation
The remuneration system applicable during the reporting period to members of the Management Board of Klöckner & Co SE was approved at the Annual General Meeting on May 13, 2016 with a majority of 87.03% of votes cast and complies with all recommendations of the German Corporate Governance Code in the version of February 7, 2017. As required by the new German Act Implementing the Second Shareholder Rights Directive (ARUG II), the Company will vote on the remuneration system for the Management Board and Supervisory Board (in accordance with Sections 87a, 113 (3), 120a (1) of the German Stock Corporation Act (AktG), as amended, in conjunction with Section 26j (1) of the Introductory Act to the Stock Corporation Act (EGAktG), as amended) at the Annual General Meeting held in 2021. The remuneration system to be presented there will also take into account the requirements of the German Corporate Governance Code in the version of December 16, 2019 (published on March 20, 2020 in the Federal Gazette, hereinafter referred to as the "Code"); for further information on the deviation from the Code in this regard, please see the Declaration of Conformity in the Corporate Governance Statement on page 88. All requirements of the Code are already complied with in the new contract entered into with Guido Kerkhoff in the reporting year. The contracts in place with the remaining members of the Management Board continue to be governed by the Code in the version of February 7, 2017.

Remuneration for Management Board members consists of non-performance-related and performance-related components. The non-performance-related components comprise a basic (fixed) salary, ancillary benefits and pension benefits. In the reporting year, the performance-related component of Management Board remuneration consisted of a variable annual bonus.

The annual fixed salary of ordinary members of the Management Board for the reporting year is €420,000 (2019: €420,000; €480,000 in the case of ordinary Management Board members Ketter and Wegmann who left in 2019), that of the Deputy Chairman of the Management Board is €750,000 and that of the Chairman of the Management Board is €1,090,000 (2019: €1,090,000; up to May 31, 2019: €930,000).

The variable annual bonus for ordinary members of the Management Board for the reporting year is €600,000 at 100% target attainment (2019: €600,000; €720,000 in the case of ordinary Management Board members Ketter and Wegmann who left in 2019), subject to a maximum of €1,200,000 (2019: €1,200,000; €1,440,000 in the case of ordinary Management Board members Ketter and Wegmann who left in 2019). The variable annual bonus for the Deputy Chairman of the Management Board is €1,100,000, subject to a maximum of €2,200,000. Finally, the variable annual bonus for the Chairman of the Management Board is €1,620,000 (2019: €1,620,000; up to May 31, 2019: €1,380,000), subject to a maximum of €3,240,000 (2019: €3,240,000; up to May 31, 2019: €2,760,000).

The maximum amounts correspond in each case to 200% target attainment. Total annual remuneration (fixed salary plus bonus) for the reporting year at 100% target attainment is therefore €1,020,000 for ordinary members of the Management Board (2019: €1,020,000; €1,200,000 in the case of ordinary Management Board members Ketter and Wegmann who left in 2019), €1,850,000 for the Deputy Chairman of the Management Board and €2,710,000 (2019: €2,710,000; up to May 31, 2019: €2,310,000) for the Chairman of the Management Board.

However, only 49% of the variable annual bonus is paid directly to each Management Board member (40% in the case of the Deputy Chairman of the Management Board). Management Board members must use the remaining 51% (60% in the case of the Deputy Chairman of the Management Board) for a personal investment in Company shares with a vesting period of three years (four years in the case of the Deputy Chairman of the Management Board), thus linking it to the Company's sustained performance. Hence, the performance-related component offers mainly long-term performance incentives, gearing the remuneration structure toward the sustained growth of the Company. The size of the variable annual bonus is calculated based on the achievement of targets set by the Supervisory Board. Pursuant to the Code in the version of February 7, 2017, the Supervisory Board set the targets at the beginning of the reporting year. In the reporting year, as in prior years, target figures for EBITDA and cash flow from operating activities were set for the purposes of the annual bonus based on the Group's budget. EBITDA accounts for 40% and operating cash flow for 30%. The achievement and implementation of other targets and measures is factored into the bonus calculation at a total weighting of 30%. In the reporting year, these related to (i) further increases in digital sales as a percentage of total sales, (ii) further implementation of the digitalization strategy (implementation of Kloeckner Assistant and XOM eProcurement in additional countries), (iii) the size of the earnings impact from digitalization and (iv) reducing the lost time injury frequency (LTIF) across the Group. For fiscal year 2021, the Supervisory Board already set the targets at its December meeting in the reporting year because, under the Code as most recently amended, targets are now set before each fiscal year. As in previous years, among others, for the fiscal year 2021 target figures were set for EBITDA and operating cash flow based on the Group budget. The total weighting of those figures was increased with a higher focus on EBITDA accounting for 50% and operating cash flow accounting for 30%. The achievement and implementation of other targets and measures is factored into the bonus calculation in the fiscal year at a total weighting of 20%. These relate in 2021 to (i) further increases in digital sales as a percentage of total sales, (ii) further implementation of the digitalization strategy (percentage of sales via Kloeckner Assistant), (iii) the size of the earnings impact from digitalization and (iv) reducing the lost time injury frequency (LTIF) across the Group.

Under the Management Board members' contracts, the Supervisory Board also has discretionary power to award a special bonus to individual Management Board members for exceptional performance or exceptional accomplishment. In total, however, the special bonus and annual bonus may not exceed the cap on the annual bonus stated above. No special bonus has been awarded since 2010, including during the reporting year.

Compensation for the members of the Management Board – fixed salary and bonus (including the aforementioned discretionary bonus) – is subject to a cap. The cap is €1,620,000 for ordinary members of the Management Board, €2,950,000 for the Deputy Chairman of the Management Board and €4,330,000 for the Chairman of the Management Board.

Ancillary benefits primarily consist of insurance premiums and private use of company cars, in the case of the CEO with a driver. In addition to the remuneration components set out above, the Chairman of the Management Board Gisbert Rühl has a defined benefit pension plan in accordance with the rules of Essener Verband, which in this instance provides for a life-long pension with benefits for surviving dependents. Management Board member Mr. Ganem has a comparable pension plan commensurate with the arrangements applicable to him at the US subsidiary prior to his appointment to the Management Board, which likewise includes a life-long pension. Management Board member Dr. Falk has a defined benefit pension plan in accordance with the rules of Essener Verband (continuation of his pension plan as an employee of Klöckner & Co Deutschland GmbH before his appointment as a member of the Management Board), and receives a fixed amount each year that he must use to provide for his own retirement income (a defined contribution pension plan). Instead of pension benefits, Deputy Chairman of the Management Board Guido Kerkhoff receives a fixed amount that he is required to use to provide for his own retirement income (a defined contribution pension plan).

Other arrangements
Management Board contracts provide for compensation on early termination other than for cause. This compensation depends on the remaining term of the contract, but is capped at two years' annual remuneration. Until the end of the reporting year the Chairman of the Company's Management Board had the right to early termination of his service contract in case a threshold of 30% of voting rights would have been exceeded ("change-of-control-provision"). Based on such provision he would have been entitled to payment of his budgeted salary up to the end of his contract term, capped at three times the total remuneration received in the last full fiscal year prior to termination of his service contract. The personal investment requirement would have been waived for the remaining term. Also, any personal investment shares still vesting would have been unlocked and released. On extension of the CEO's contract beyond the reporting year, the change-of-control provision was removed effective January 1, 2021. The Management Board members are subject to a 24-month post-contractual non-competition covenant compensated for by payment of half of their final overall remuneration (fixed salary plus bonus at 100% target attainment) p.a. unless the Company waives the clause. With the exception of the Chairman of the Management Board, the Management Board contracts already provide for such amounts to be set off against any severance payments. In such cases, the personal investment requirement is also waived. The Company has directors and officers (D&O) insurance, including insurance for members of the Management Board. For members of the Management Board, this features a deductible of 10% of the claim, limited to one-and-a-half times the annual fixed salary. John Ganem's employment contract includes a stable-value clause for his bonus to limit effects of potential changes in the US dollar exchange rate. Changes in the exchange rate could thus result in a higher euro amount being paid.

Appropriateness
Criteria determining the appropriateness of Management Board remuneration include the individual Management Board member's responsibilities, his or her personal performance, the business situation, earnings and future prospects of the Company, the extent to which the remuneration matches that of industry peers and the remuneration structure adopted by the Company. Both positive and negative developments are taken into account in the performance-related remuneration components. Remuneration levels are set overall to be internationally competitive and to give incentives geared to the Company's sustainable growth and a sustained increase in enterprise value in a dynamic environment. To aid the Supervisory Board in setting the current remuneration system, a horizontal comparative survey of remuneration was carried out. Among other factors, the study was based on an independently compiled study of remuneration paid to regular management board members and chairs of management boards at other companies. Due to the lack of comparable German companies in the steel distribution industry, other wholesalers and comparable international companies are included in the analysis. The Supervisory Board also regularly reviews the current remuneration system with regard to its components and the amount of fixed and variable remuneration. An analogous approach was applied in assessing the total remuneration of the Deputy Chairman of the Management Board, Guido Kerkhoff, who was newly appointed in the reporting year. The peer group used consisted of German, SDAX-listed companies of comparable size (sales and workforce) and international peer companies.

Horizontal comparison of the Management Board remuneration with that of other companies for the purpose of establishing the current remuneration system showed Klöckner & Co SE tended to be below the average of the then applicable comparative figures regarding the amount and structure of remuneration. In addition, a vertical comparison with the remuneration for senior management and the Group workforce as a whole was carried out. In this case, the Supervisory Board determined that the structure and the amount of the total remuneration paid to the Management Board members was commensurate with their duties and performance, the remuneration structures in the Company and the situation of the Company, and that it was geared to the Company's sustainable growth while not exceeding normal remuneration levels. Regular checks are made to ensure that these findings remain up to date.

Compensation for 2020

The tables below show the individual remuneration entitlements of Management Board members for 2020 as presented in past years (on the basis of the Code in the version of February 7, 2017):

Granted compensation	Gisbert Rühl (CEO)				Guido Kerkhoff (Deputy Chairman since September 1, 2020)			
(€ thousand)	2019	2020	2020 (Min.)	2020 (Max.)	2019	2020	2020 (Min.)	2020 (Max.)
Fixed compensation	1,023	1,090	1,090	1,090	-	250	250	250
Ancillary benefits[1)]	41	41	41	41	-	89	89	89
Total	**1,064**	**1,131**	**1,131**	**1,131**	**-**	**339**	**339**	**339**
One year's variable compensation	1,520	1,620	-	3,240	-	367	-	733
Multi-year variable compensation[2)]								
- Virtual stock option plan	-	-	-	-	-	-	-	-
Total	**2,584**	**2,751**	**1,131**	**4,371**	**-**	**706**	**339**	**1,072**
Postemployment benefits	766	1,029	1,029	1,029	-	-	-	-
Total compensation	**3,350**	**3,780**	**2,160**	**5,400**	**-**	**706**	**339**	**1,072**

Granted compensation	Dr. Oliver Falk (CFO since August 1, 2019)				John Ganem (since August 1, 2019)			
(€ thousand)	2019	2020	2020 (Min.)	2020 (Max.)	2019	2020	2020 (Min.)	2020 (Max.)
Fixed compensation	175	420	420	420	175	420	420	420
Ancillary benefits[3)]	28	67	67	67	22	69	69	69
Total	**203**	**487**	**487**	**487**	**197**	**489**	**489**	**489**
One year's variable compensation[4)]	250	600	-	1,200	250	600	-	1,200
Multi-year variable compensation[2)]								
- Virtual stock option plan	-	-	-	-	-	-	-	-
Total	**453**	**1,087**	**487**	**1,687**	**447**	**1,089**	**489**	**1,689**
Postemployment benefits[5)]	219	109	109	109	2,441	158	158	158
Total compensation	**672**	**1,196**	**596**	**1,796**	**2,888**	**1,247**	**647**	**1,847**

Granted Compensation	Marcus A. Ketter (CFO until May 15, 2019)				Jens M. Wegmann (COO until July 31, 2019)			
(€ thousand)	2019	2020	2020 (Min.)	2020 (Max.)	2019	2020	2020 (Min.)	2020 (Max.)
Fixed compensation	180	-	-	-	280	-	-	-
Ancillary benefits[6)]	68	-	-	-	32	-	-	-
Total	**248**	**-**	**-**	**-**	**312**	**-**	**-**	**-**
One year's variable compensation	270	-	-	-	420	-	-	-
Multi-year variable compensation[2)]								
- Virtual stock option plan	-	-	-	-	-	-	-	-
Total	**518**	**-**	**-**	**-**	**732**	**-**	**-**	**-**
Postemployment benefits	-	-	-	-	190	-	-	-
Total compensation	**518**	**-**	**-**	**-**	**922**	**-**	**-**	**-**

1) For Guido Kerkhoff including €83,333 paid in lieu of corporate pension benefits which must be invested in a private post-retirement scheme.
2) The virtual stock option program ended in 2015. Further information on the program can be found in the Annual Report 2015.
3) For Dr. Oliver Falk including €50,000 for 2020 (2019: €20,833) paid in lieu of corporate pension benefits which must be invested in a private post-retirement scheme.
4) For John Ganem, the calculation is subject to an indexation clause to limit the effects of potential changes in the US dollar exchange rate.
5) The post-employment benefits in 2019 for Management Board members Dr. Oliver Falk and John Ganem, who joined part-way through the year 2019, include the service cost for the full year 2019. In the case of John Ganem, €2,282 thousand relate to past service cost which also concerns his service as CEO of Kloeckner Metals Corporation, Delaware, USA, before his appointment to the Management Board.
6) For Marcus A. Ketter including €56,250 for 2019 paid in lieu of corporate pension benefits which must be invested in a private post-retirement scheme.

Proceeds	Gisbert Rühl (CEO)				Guido Kerkhoff (Deputy Chairman since September 1, 2020)			
(€ thousand)	2019	2020			2019	2020		
Fixed compensation	1,023	1,090			-	250		
Ancillary benefits[1)]	41	41			-	89		
Total	**1,064**	**1,131**			**-**	**339**		
One year's variable compensation	1,746	1,904			-	431		
Multi-year variable compensation[2)]								
- Virtual stock option plan	-	-			-	-		
Total	**2,810**	**3,035**			**-**	**770**		
Postemployment benefit	766	1,029			-	-		
Total compensation	**3,576**	**4,064**			**-**	**770**		

Proceeds	Dr. Oliver Falk (CFO since August 1, 2019)				John Ganem (since August 1, 2019)			
(€ thousand)	2019	2020			2019	2020		
Fixed compensation	175	420			175	420		
Ancillary benefits[3)]	28	67			22	69		
Total	**203**	**487**			**197**	**489**		
One year's variable compensation[4)]	287	705			287	705		
Multi-year variable compensation[2)]								
- Virtual stock option plan	-	-			-	-		
Total	**490**	**1,192**			**484**	**1,194**		
Postemployment benefit[5)]	219	109			2,441	158		
Total compensation	**709**	**1,301**			**2,925**	**1,352**		

Proceeds	Marcus A. Ketter (CFO until May 15, 2019)				Jens M. Wegmann (COO until July 31, 2019)			
(€ thousand)	2019	2020			2019	2020		
Fixed compensation	180	-			280	-		
Ancillary benefits[6)]	68	-			32	-		
Total	**248**	**-**			**312**	**-**		
One year's variable compensation	310	-			420	-		
Multi-year variable compensation[2)]								
- Virtual stock option plan	-	-			-	-		
Total	**558**	**-**			**732**	**-**		
Postemployment benefit	-	-			190	-		
Total compensation	**558**	**-**			**922**	**-**		

1) For Guido Kerkhoff including €83,333 paid in lieu of corporate pension benefits which must be invested in a private post-retirement scheme.
2) The virtual stock option program ended in 2015. Further information on the program can be found in the Annual Report 2015.
3) For Dr. Oliver Falk including €50,000 for 2020 (2019: €20,833) paid in lieu of corporate pension benefits which must be invested in a private post-retirement scheme.
4) For John Ganem, the calculation is subject to an indexation clause to limit the effects of potential changes in the US dollar exchange rate.
5) The post-employment benefits in 2019 for Management Board members Dr. Oliver Falk and John Ganem, who joined part-way through the year 2019, include the service cost for the full year 2019. In the case of John Ganem, €2,282 thousand relate to past service cost which also concerns his service as CEO of Kloeckner Metals Corporation, Delaware, USA, before his appointment to the Management Board.
6) For Marcus A. Ketter including €56,250 for 2019 paid in lieu of corporate pension benefits which must be invested in a private post-retirement scheme.

Remuneration related to the termination of Management Board activities

No member of the Management Board left the Management Board in the reporting year. There was consequently no remuneration related to the termination of Management Board activities.

Compensation of former members of the Executive Board

In the reporting year, total compensation of €222 thousand was paid to former members of the Management Board (2019: €222 thousand). Accruals for pension obligations to former members of the Management Board and their surviving dependents amount to €9,030 thousand (2019: €8,775 thousand) under IFRS and €5,449 thousand (2019: €5,118 thousand) under German GAAP.

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

Remuneration consists mainly of fixed remuneration allocated pro rata temporis in the event of personnel changes during the fiscal year. An attendance fee is also paid; reasonable out-of-pocket expenses and value added tax are reimbursed. The Company covers the cost of external training for Supervisory Board members via expense accounts. The fixed remuneration is €40,000 per fiscal year. The Chairman of the Supervisory Board receives two-and-a-half times, his or her deputy one-and-a-half times and the Chairman of the Audit Committee one-and-a-quarter times the fixed remuneration.

The attendance allowance is €2,000 per meeting. The Chairman of the Supervisory Board and any Chairman of a Supervisory Board committee each receive two-and-a-half times this amount and their deputies one-and-a-half times this amount. Pursuant to Section 314 (1) No. 6 of the German Commercial Code (consolidated financial statements) and Section 285 No. 9 of the German Commercial Code (single-entity financial statements), Supervisory Board remuneration totaled €473,000 in 2020 (2019: €523,000). Under the German Stock Corporation Act, as amended by the German Act Implementing the Second Shareholder Rights Directive (ARUG II), the annual general meetings of listed companies must adopt a resolution on Supervisory Board remuneration at least once every four years. In accordance with the transitional provisions under ARUG II, this is planned for the forthcoming Annual General Meeting in 2021.

The table below shows the individual remuneration entitlements of Supervisory Board members for 2020 as presented in past years (on the basis of Section 5.4.6 (3) sentence 1 of the Code in the version of February 7, 2017). All payments are due after the close of the Annual General Meeting in 2021.

(in €)	Fixed remuneration	Attendance fees	Total
Prof. Dr. Dieter H. Vogel (Chairman)	100,000	50,000	150,000
Dr. Ralph Heck (Deputy Chairman)	60,000	18,000	78,000
Prof. Dr. Karl-Ulrich Köhler	40,000	18,000	58,000
Prof. Dr. Tobias Kollmann	40,000	10,000	50,000
Prof. Dr. Friedhelm Loh	40,000	14,000	54,000
Ute Wolf	50,000	33,000	83,000
Total	**330,000**	**143,000**	**473,000**

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

SUSTAINABILITY REPORTING

of Klöckner & Co SE

Klöckner & Co SE sustainability reporting 2020

Klöckner & Co is one of the largest producer-independent distributors of steel and metal products worldwide. As we are not tied to any particular steel producer, customers benefit from our centrally coordinated procurement and wide range of national and international sourcing options from around 60 key suppliers across the globe. These include the world's largest steel producers and their distribution arms. Responsible conduct plays a central role in relation to our business model and our self-perception as a tradition-rich company. For us, responsibility means aligning our entire enterprise around good ethical behavior, social responsibility, environmental compatibility as well as commercial success. This ethos is enshrined in our Group-wide Klöckner & Co Principles, which ensure that we share a common understanding and provide specific guidance for our conduct on a day-to-day basis. Sustainability is an issue of special importance at every link in the steel value chain. Although the steel industry's large environmental impact has already shrunk considerably in recent years, production in particular is still associated with high levels of resource use. However, we as a distributor and important link in the value chain also see it as our duty to continuously improve processes in order to minimize the adverse effects of our business activities. This was among the reasons we committed to the UN Global Compact "Business Ambition for 1.5°C," where we are in the target-development phase. The participants in this initiative measure their greenhouse gas emissions and plan reduction targets that are in line with limiting the rise in global temperatures to 1.5°C by 2050.

Our approximately 7,300 employees apply their skills and enthusiasm every day to meeting our customers' needs and wishes. We provide customers with an optimized, end-to-end solution from procurement through logistics to prefabrication, including individual delivery and 24-hour service – processes we are increasingly migrating to digitalization. For example, we use a variety of digital tools and portals to enable us to provide our customers and business partners with a broader spectrum of steel and metal products as well as services. Through our distribution and logistics network comprising around 140 sites in 13 countries, both in Europe and in the USA, we serve more than 100,000 customers. Concentrated mainly in the construction as well as the machinery and mechanical engineering industries, our customer base consists primarily of small to medium-sized steel and metal consumers (for more in-depth information about Klöckner & Co's business model, see page 33 of the management report).

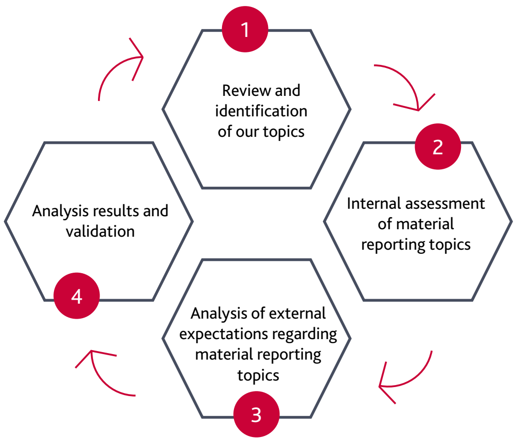
Group non-financial report in accordance with Section 315b of the German Commercial Code

The following sustainability reporting for 2020 includes the Group non-financial report of Klöckner & Co SE in accordance with Section 315b of the German Commercial Code (HGB). In the Group non-financial report, we present the non-financial issues of major relevance to our business activities together with the impact of those activities on aspects comprising environmental matters, employee matters, respect for human rights as well as anti-corruption and bribery. This includes the chapters of the Employees, Responsible Conduct and Environment action areas. In addition, we provide transparent reporting in the following on our broader engagement with regard to sustainability. This includes the chapters relating to the Digitalization and Customers action areas.

The reporting period for the Group non-financial report is fiscal year 2020. Unless otherwise specified, the information covers all fully consolidated companies of the Klöckner & Co SE Group. Following re-evaluation, we decided against using a framework in the preparation of the Group non-financial report, as we do not require a framework to present the relevant information in a structured and stringent manner. In addition, such frameworks build upon different definitions of materiality and result in a choice of topics that is not appropriate for our representation of non-financial aspects. However, verification of the use of a framework is regularly carried out.

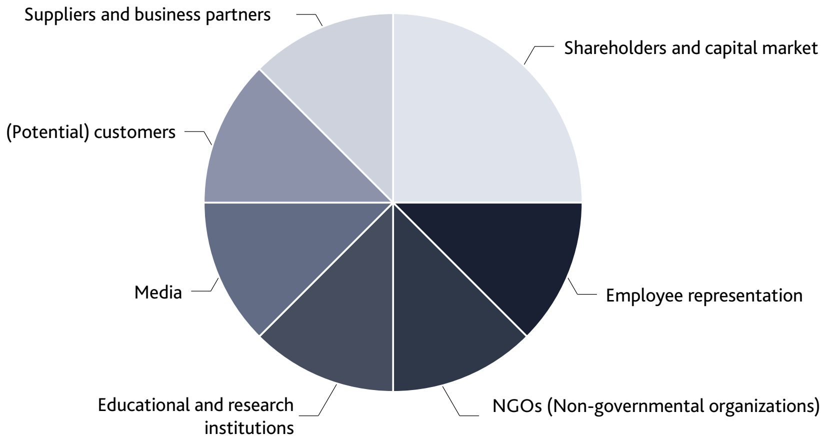
PricewaterhouseCoopers GmbH was engaged to provide a limited assurance review of the information items in the German PDF version of the sustainability report, which contains the Group non-financial report, for the period January 1, 2020 to December 31, 2020.

Materiality analysis



The topics to be included in the Group non-financial report are specified and formulated within the context of our sustainability management. Our definition of sustainability comprises all the areas that contribute to securing the long-term success – i.e. the future viability – of Klöckner & Co. We review the reporting topics on an ongoing basis in order to ensure that we are advancing the key issues that are material to a sustainable, forward-looking strategy in a dynamic market environment. In 2020, we again conducted an extensive materiality analysis based on the results of the 2017 materiality analysis. We approached the material topics using 14 process steps that were individually tailored to Klöckner & Co. First, we reviewed the topics from the previous materiality processes in terms of their currentness. Additionally, we examined which further industry-specific topics should be included. We identified 26 topics that are significant for our corporate responsibility management and reporting, and weighted them according to their relevance. The prioritization of the issues reflects their importance in terms of business relevance (net assets, financial position and results of operations, innovation and reputation) as well as the impacts of our business activities and the upstream supply chain on the environment and on society. The Sustainability Committee then discussed, validated and approved the findings.

Potential material sustainability topics were identified in an internal working group comprising selected executives and functional managers. They categorized as material those topics that meet the bar for double materiality. This refers to company activities and business topics that have a decisive negative or positive impact on sustainability aspects outside the organization (inside-out perspective) as well as external sustainability aspects that have a significant impact on internal company activities (outside-in perspective). We have also integrated the perspectives of various stakeholders as a criterion of materiality. The findings were again reviewed and reevaluated in dialog with external stakeholders (the capital market, customers, suppliers, employee representatives, NGOs, the media as well as education and research bodies).



External stakeholder survey (70% response rate)

In order to conduct the most accurate analysis possible, we added qualitative statements to each of the quantitative assessments of potential material topics. This means that topics may also be considered material if they have a significant impact on decisions the stakeholders may make or on their relationship to the Company. The aggregate results were coordinated with the CEO to ensure comprehensive and integrated reporting for the Group. The topics deemed material are the focus areas of this report. The relevance of the Group-specific topics of digital transformation and customer satisfaction, which go beyond the minimum requirements of the German Commercial Code (HGB), became clear in the stakeholder perspectives examined individually as well as in the assessment summarized subsequently.

Furthermore, we identify additional topics as material that are of special significance to Klöckner & Co. This includes social commitment, which the stakeholders did not consider material yet must be considered from the Group perspective. It also covers social matters, an obligatory aspect in the HGB.

Action areas and reporting topics

ACTION AREAS	EMPLOYEES	RESPONSIBLE CONDUCT	ENVIRONMENT	DIGITALIZATION	CUSTOMERS
TOPICS	Occupational safety Employee development Fair working conditions Demographic change	Corporate Governance[1] Human rights in the supply chain[2] Corporate citizenship[3] Antitrust risks[1]	Environmental impact of logistics	Digital Transformation	Customer satisfaction
MAPPING GERMAN COMMERCIAL CODE (HGB)	Employee matters	[1] Anti-corruption and bribery matters [2] Respect for human rights [3] Social matters	Environmental matters	Group specific matters	Group specific matters

The materiality analysis carried out according to the CSR Directive Implementation Act yielded the following six material topics for reporting at Klöckner & Co: employee development, occupational health and safety, antitrust risks, the environmental impact of logistics, customer satisfaction and digital transformation. These topics represent the three obligatory matters of employee matters (employee development; occupational health and safety), anti-corruption and bribery (antitrust risks) and environment (environmental impact of logistics) according to the HGB. Respect for human rights and social matters, both obligatory matters, are not included in the six material topics derived from the materiality analysis. Two material topics – customer satisfaction and digital transformation – go beyond the obligatory matters and are specific to the Group. Aspects that go beyond the obligatory matters but are derived from the materiality analysis are material according to HGB criteria and are components of obligatory non-financial reporting.

Apart from the topics identified in the materiality analysis, we also report on topics that are significant to Klöckner & Co in connection with sustainability: human rights in the supply chain, corporate governance, fair working conditions, demographic change and social commitment. This way, our reporting covers the two obligatory matters of respect for human rights (human rights in the supply chain) and social matters (social commitment), which the HGB requires. Our sustainability strategy and our sustainability management are aligned with the five action areas of Employees, Responsible Conduct, Environment, Digitalization and Customers. They also form the chapters of this report.

Risk assessment

No reportable risks

A risk assessment has been conducted for all material issues under the CSR Directive Implementation Act. This investigated whether our business activities or our supply chain give rise to material risks for reportable matters under Section 315c read in conjunction with Section 289c (3) of the HGB. The investigation took into account the probability of occurrence and the scale of negative impacts for each matters. No reportable risks were identified.

Sustainability management

Sustainability Committee determines main pillars of sustainability strategy

As a tradition-rich company, Klöckner & Co considers it its duty to ensure its own future viability by means of long-term, strategic goals. In this process, responsibility for the bulk of internal and external stakeholders plays an important role that follows from the size and international presence of our business activities. To shape these relationships in the long term and in a responsible manner for the benefit of all, we bundle all relevant activities in a Group-wide sustainability management system that covers the three dimensions of sustainability – economic, environmental and social. The CEO is functionally responsible for the area of sustainability. Responsibility for sustainability management, coordinating all sustainability activities and compiling the Group non-financial report lies with the Investor Relations, Internal Communications & Sustainability department. In addition, a Sustainability Committee was set up at the end of 2016, composed of managers from Investor Relations, Internal Communications & Sustainability, Legal & Compliance/Personnel & Insurance, Group HR and Digital Transformation. Logistics & Operations assumes responsibility for sub-sections of the former Safety, Health, Environment and Quality (SHEQ) Management in the Digital Transformation unit. In 2020, Risk Management was integrated into the Committee. The Sustainability Committee determines the main pillars of the sustainability strategy and, regarding its implementation, coordinates its activities closely with the respective departments across the Klöckner & Co SE Group.

Alongside the expertise bundled in our Sustainability Committee, we purposefully harness our employees' innovative drive. Our employees can use the Company-wide social network Yammer to submit ideas and suggestions, the feasibility of which is subsequently evaluated by Investor Relations, Internal Communications & Sustainability as well as by relevant experts.

EMPLOYEES

In the Employees action area*, we cover our employees' productive skills, knowledge and behaviors. These also include the following topics that are material to non-financial reporting: occupational health and safety, employee development, fair working conditions and demographic change. This action area refers to the aspect of employee matters, which is required in the HGB.*

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

Principles valid Group-wide

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

The Surtsey project – accelerating the digital transformation

In the reporting period, we launched the Surtsey project, with which we are now significantly stepping up the pace of Klöckner & Co's digital transformation into a platform company, and thus laying the foundations for a return to sustainable growth in the future. The workforce will be reduced by a total of more than 1,200 employees as part of Surtsey. As of January 2021, the workforce was reduced by about 1,000 (figures related to the provisions recognized are available in the Digitalization section and in the consolidated financial statements). In addition, branches were closed which are no longer needed due to the site optimization as part of the push for efficiency gains in logistics.

Employee development

Continuing education is more vital than ever, and it is a key component of our Klöckner & Co Principles and corporate culture. That is why we offer employees a wide variety of further training and personal development opportunities. Another focus is on nurturing new talent. Particularly with a view to demographic change, recruiting and securing talent for the long term is central to our corporate success.

Our activities are directed at continually refining and enhancing workforce qualifications and skills – notably with regard to digitalization – and promoting talent from within our own ranks. The vast majority of country organizations perform these activities locally and have their own HR developers. Our Group-wide HR strategy, known as the Klöckner & Co People Strategy, serves as a guiding framework for forward-looking employee management throughout the Group.

The CEO is updated via ongoing exchange about developments in and outcomes of such activities, and ensures that the thematic areas covered by the Group-wide HR strategy are driven forward. Our HR strategy is based on the pillars of leadership and corporate culture, systematic performance, talent and succession management as well as improvements to make us an even more attractive employer. Leadership and corporate culture as well as employer attractiveness are topics of special focus in the employee survey, and received largely positive ratings from the staff. At the start of the year, we once again conducted a Group-wide employee survey following the one in 2019. Almost all of the organizations participated. The results provide the springboard for initiating new HR management measures and developing our culture. All the areas included in the survey showed improvements compared with the 2019 survey. The response rate rose from around 60% to around 70% in the reporting year. The questions that received the most positive responses were whether employees feel they are treated with respect by their immediate supervisor (85%) and whether everyone knows how they can contribute to the Company's goals (85%). It was also particularly gratifying to see that eight out of ten employees say they are happy to be working for Klöckner & Co (80%) and are familiar with our current strategy (79%). Of the entire workforce, 16% were dissatisfied with their workspace for reasons such as the lighting and noise levels. As we are able to break the survey down to the individual site level, we can implement targeted measures, such as those that focus on individual rooms and areas. Systematic change management will help us to use the findings to our advantage. A Group-wide employee survey is also planned for 2021.

Some 46,000 in-house training courses completed

Continuing education is a high priority at Klöckner & Co. Group-wide, some 46,000 in-house courses were completed in a broad spectrum of areas in the reporting year. The majority of them were in security, compliance and digital skills development as part of the Digital Academy. External, individual continuing-education measures are not included in this figure.

The Digital Academy is a special in-house offering designed to promote the personal development of employees throughout the Group and prepare them for the digital future. Klöckner & Co offers an extensive range of online training courses that staff at every site can take during working hours. In 2020, the Digital Academy focused on such topics as digitalization basics, coding, online marketing and digital business models. The rise in the total number of course registrations – from 3,600 in 2019 to over 9,000 in 2020 – is especially noteworthy. For us, this is a clear indicator that these continuing-education options are very popular among the workforce, who are making increasing use of them to build the digital skills that will be increasingly relevant in the future. More information about continuing education and digital-skills measures can also be found in the Digitalization section.

Klöckner & Co additionally provides support for training taken on employees' own initiative. Employees receive feedback on their behavior and performance up to four times a year during reviews, and individual wishes and training courses are incorporated as part of target agreements.

Launched in 2018, the "CLEAR Sales – selling through the eyes of your customer" training course available throughout Europe remains part of our training portfolio. With its focus on communications as well as building and strengthening customer relationships, this sales training teaches participants how to better identify our customers' needs and offer them tailored solutions. Online videos are also now available in our Digital Academy ready to be used Group-wide at any time.

In addition, there are internal measures to foster young talent. In 2020, all European country organizations saw the continuation of the Country Talent Pool Program, in which young talent is selected and provided with targeted support and training over a period of twelve months.

Training courses in leadership empowerment, change management and digital transformation

Emerging Leaders is a global development program for tomorrow's aspiring executives. The program both teaches and acts as a refresher for expertise essential to the digital era, the associated radical change process and the future of the Group. Topics range from contemporary business administration knowledge, leadership and change management skills to agile working methods, and serve as an effective toolkit for innovative and customer-centric business practices tailored to our digital transformation. The promotion rate for the first Emerging Leaders from 2015/2016 has now reached 77%. The second cohort completed the program at the end of 2017 and already successfully hold branch manager or operating leadership positions. To date, 92% of this cohort have climbed a step up the career ladder. The third cohort participated in the program during the reporting year – in virtual form starting with the second module, due to the COVID-19 pandemic. Selection of the fourth cohort is slated for 2021.

Management tasks have changed substantially due to ever flatter hierarchies, virtual teams and rapidly evolving demands. Executives not only need to keep pace themselves, but also stay motivated in their efforts to support constructive collaboration among their team members. In order to ensure that happens at Klöckner & Co, managers at management level 3 can now take part in the Leadership Empowerment Program (LEMP). This program was launched to give even more Klöckner & Co employees digital training opportunities that will keep their skillsets aligned with the future of the Group. In the reporting year, 22 employees at sites around the world took part in the first of two modules, learning about mindset, communication, management skills, ethics and compliance, as well as the platform business and the digital transformation.

Moreover, during a two-day Group Management Meeting (GMM), Klöckner & Co's top management level met with international experts who contributed scientific and practical expertise and discussed employee management during a radical transformation. Several virtual GMM learning modules will be offered to this target group in 2021 in order to intensify the focus on continuing education at the top level as well. All the offerings will be conducted in cooperation with the European School of Management and Technology in Berlin, which the Financial Times has rated Germany's top business school.

For career starters and students, Klöckner & Co offers Group-wide internships and working student positions, where they can apply and consolidate content from their studies in real-life business situations. Our German activities in this connection follow the quality standards of the Fair Company initiative, for which Klöckner & Co reaffirms its commitment each year. We also offer a large number of apprenticeships and equivalent programs to provide young people with a career entry point while ensuring that Klöckner & Co is able to secure well-qualified young talent. In Germany, apprentices accounted for 5.8% of our entire workforce in the reporting year.

The fact that our further training activities are well received is demonstrated, for instance, by the results of our employee survey and the consistently positive feedback regarding our Emerging Leaders Program as well as our kununu rankings, where we are regularly rated a top employer.

Occupational health and safety
Occupational health and safety is a key issue for us as a steel distributor with a high percentage of wage earners employed at our branches. A healthy and safe working environment both protects our employees and ensures smooth process workflows.

Over and above the legal requirements, the topic of occupational safety is addressed at various levels of Klöckner & Co. At a corporate strategic level, all our occupational safety activities have been brought together under the Safety 1st initiative in Europe and comparable initiatives at our American country organizations since 2013. With guidance from a worldwide survey entitled Safety Perception conducted in 2018, recommendations were made that serve as the basis for continuous improvements.

LTIF value reduced to 9.7 in 2020

The Group-wide goal of our occupational safety initiatives and activities is a consistent reduction in occupational accidents as measured by the Lost Time Injury Frequency (LTIF). This is defined as the number of accidents/number of hours worked x 1,000,000. We take accidents into account from the first working day lost. Changes in the LTIF are a firm feature of regular Management and Supervisory Board meetings and are captured in monthly reports. In the 2020 reporting year, the LTIF was reduced to 9.7, as compared with a value of 10.3 in the previous year – again coming in under the annual Group-wide LTIF Klöckner & Co had set itself. Our target for 2021 is to permanently reduce the average Group-wide accident frequency to an LTIF value of less than or equal to 9.0[1].

To ensure regular exchanges on the topic of occupational safety in Europe **within the Group**, we have established a committee comprising experts from the European country organizations. It generally meets twice a year and is responsible for monitoring the overall activities and coordinating our occupational safety strategy. The committee liaises closely with the US country organizations and reports directly to the managers responsible for operations. Due to the COVID-19 pandemic, the committee met only once in the reporting year. Resources were fully occupied with the expansion of the safety and hygiene measures.

All European country organizations with the exception of Belgium (planned for Q1 2021) have already implemented occupational health and safety certification, usually under the international standard OHSAS 18001/ISO 45001. Apart from that, a Group-wide minimum standard always applies to safety requirements, independent of whether a country organization is pursuing certification.

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

Local occupational health and safety officers are present at branch level to raise awareness of employees. This is done by such means as training courses and training videos as well as by visual means including posters, accident reports and a safety card that memorably presents key rules of conduct in credit card format. In addition, all visitors are required to wear helmets, safety shoes and high-visibility vests. Our operational processes are also optimized on an ongoing basis with individual improvements according to context.

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

This includes, for example, a series of training videos and a Safety 1st e-learning course that has been a firm feature of the onboarding process for every employee since 2019. The central importance of this topic is also informally addressed on Yammer, our internal social network. Pertinent information is regularly shared within the Group, which in turn helps to increase awareness. At the same time, employees regularly remind each other to always observe safety rules and motivate one another to continue to perform well.

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

Safety measures during the COVID-19 pandemic

Comprehensive safety and hygiene concepts during the pandemic

Klöckner & Co's most valuable asset is the health and safety of our employees. When the effects of the global COVID-19 pandemic became clear in early 2020, the Group took immediate action. A COVID-19 crisis team formed in the holding company and discussed the developments each week. The crisis team kept the employees informed in a transparent manner via the Yammer network. The country organizations developed hygiene concepts and safety measures in a decentralized fashion, depending on their needs and requirements. Over the course of the year, the hygiene concepts and measures were repeatedly tightened or relaxed in line with the severity of the pandemic. At the onset of the pandemic, the advanced degree of digitalization at Klöckner & Co meant that employees could perform most of their work at home and continue doing business.

Fair working conditions

"Neutrality and openness with regard to gender, origin, age and appearance are our overriding principles in mutual dealings. We are pleased to say that most colleagues abide by this. Discriminatory behavior is completely unacceptable to us both from a human and from a business perspective and is in no way tolerated." Thanks to the emphasis that CEO Gisbert Rühl placed on this pledge early on, this topic has long been a focus at Klöckner & Co. For Klöckner & Co, fair working conditions are the basis for the motivation, and hence productivity, of our employees. A working environment characterized by mutual respect and free from discrimination of any kind is a necessary precondition for motivation and creativity. For management, this means resolving critical situations, supporting affected employees and thus ensuring a constructive and respectful working environment. To do justice to its importance, the topic of respectful interaction is a component of the Group-wide compliance training for all employees.

The CEO is functionally responsible for Group HR, which includes the definition of and adherence to fair working conditions. In accordance with our Code of Conduct, we have undertaken to ensure, among other things, that our colleagues, applicants and business partners are met with respect and judged according to their qualifications, skills and performance. We respect diversity of cultural, ethnic and religious backgrounds and are committed to the principle of equality. Detailed rules of conduct for our employees are set out in our Code of Conduct on our website.

In general, we strive to increase diversity in our workforce as well as to foster creativity and an innovative spirit in the Company with employees of differing cultural backgrounds, lifestyles and values. For us as an international Group, serving our customers day in, day out in numerous countries around the world calls for a strong global team with a high level of diversity. In total, we employ people from more than 60 different nationalities in our Group. Hiring and remuneration criteria are gender-neutral and are determined exclusively according to professional suitability and qualifications.

However, diversity of nationality is not the only important consideration for Klöckner & Co. We also aim to appoint women to specialist and management positions. We have not only set our sights on increasing the number of women in management roles throughout the Group but have already incorporated and begun implementing it in our strategy. The aim is to have 22% of management positions held by women by the year 2022. The percentage of women employed at management levels one to three below board level had been raised from 8% in 2011 to 17% Group-wide in 2019. In 2020, this figure went down slightly to 16%. In response, the Management Board took immediate measures and in Q1 2021 agreed for the first time on targets also at the level of the country organizations in order to continue to increase the percentage of female executives in the Group long-term.

The success of our approach to promoting women in managerial positions is demonstrated by the findings of the 2015 to 2019 iterations of "Frauen-Karriere-Index" (Women Career Index), a regular survey conducted by Barbara Lutz Index Management GmbH. In the first quarter of 2020, Klöckner & Co was singled out for the fifth year in a row as one of the top ten companies out of over 160 participants in this annual external survey on the promotion of women in management positions based on objective corporate data.

In addition, the joint 2020 study by the women's magazine Brigitte and Territory Embrace also confirms that promoting women is important to Klöckner. Thanks to our good performance in the following areas, Klöckner & Co was honored as one of the best employers for women: compatibility of professional and family life, workplace flexibility, career-advancement measures, and value placed on transparency and equality.

Flexible and mobile work at home

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

The COVID-19 pandemic lent this trend further momentum, as the outbreak prompted the majority of our employees to switch to remote work. Even during the most intense phase of the pandemic, we had no difficulty keeping our business up and running. In order to facilitate the transition to working from home, we introduced Group-wide communication measures such as a special area on the intranet with tips for collegial, effective and healthy ways to work from home.

RESPONSIBLE CONDUCT

The **Responsible Conduct action area** *encompasses topics material to the Group non-financial report, namely corporate governance, human rights in the supply chain, as well as antitrust risks and Klöckner & Co's social commitment, which is also reported on within this section. This action area refers to the matters of anti-corruption and bribery, respect for human rights as well as social matters, which are required by the HGB.*

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

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

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

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

Davos Manifesto: Sustained value creation

In the reporting year, we committed to the principles of the Davos Manifesto and consider it a guideline for our corporate actions. According to the Davos Manifesto, the universal purpose of a company in the age of the fourth industrial revolution consists of three principles: The purpose of a company is to engage all its stakeholders in shared and sustained value creation. A company is more than an economic unit generating wealth. A company that has a multinational scope of activities also itself acts as a stakeholder – together with governments and civil society – of our global future.

Compliance
As an international group with numerous supplier and customer relationships worldwide, Klöckner & Co aims to ensure integrity and responsibility both within the Company and in interactions with business partners, as well as to establish responsible relationships.

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

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

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

Compliance management system based on OECD principles

To support compliance with these stipulations, we use a compliance management system based on the OECD Principles of Corporate Governance. Focal areas of this system include competition law, anti-corruption and the prevention of money laundering. Responsibility for the onward development, control and implementation of the compliance management system lies with our compliance organization, which provides employees with regular information and training on relevant statutory provisions as well as internal guidelines and procedural instructions.

The Company's corporate compliance organization consists of the Chief Compliance Officer (who is also the Chief Governance Officer), the Corporate Compliance Office (CCO), the Compliance Committee and the National Compliance Offices (NCOs). The CCO is part of the Company's GRC organization, which was established during the reporting year. The GRC organization consists of the Compliance, Data Protection, Information Security, Risk Management and Internal Control System departments. The Chief Governance Officer reports to the entire Management Board and the Supervisory Board on current developments and immediately escalates ad hoc reports to the CEO. Furthermore, the CEO, who is responsible for Compliance, is regularly informed of compliance-related matters through Compliance Risk Assessment reporting and the Compliance Audits as well as during regular compliance meetings and in the annual compliance report.

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

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

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

In the interest of all employees and to avert damage to the Company, procedural instructions are provided that detail permissible conduct. The country organizations publish the Group guidelines and procedural instructions in their area of responsibility and adopt the measures needed to implement the respective requirements. For this purpose, use is made among other things of the Corporate Compliance Office's Compliance SharePoint, where all relevant compliance documents are provided online as a "Single Point of Truth" for all Group employees. Additionally, we use an e-learning course on the regular submission of the compliance declaration, together with awareness training on various forms of CEO fraud.

Classroom training and e-learning programs familiarize new employees with the content of the Code of Conduct and raise awareness of, for instance, compliance-related issues such as antitrust law, corruption risks, money laundering risks and fraud. We first separate employees into different target groups which then receive training tailored to their specific areas of work. New hires must complete Code of Conduct training when they join. In the reporting period, some 1,164[2] employees underwent training.

Upon starting work for the Group, employees in certain target groups, especially those who come into contact with officials, customers, suppliers and service providers, must complete basic compliance training in addition to Code of Conduct training. In the reporting period, we also expanded the number of employees registered for basic compliance training to 947[2].

Additionally, we conduct refresher e-learning sessions throughout the Group to keep our employees up to date and address specific compliance-related issues with examples from their day-to-day work. All previously mentioned mandatory and other training options were again offered and held in the reporting year.

[2] Data for the period October 1, 2019 to September 30, 2020.

June 1, 2020 marked the launch of the new compliance platform GAN Connect, which covers all matters surrounding compliance. Implemented as part of our digitalization strategy, the tool serves to further optimize and streamline processes. The modules currently in use on the platform are about requests and approvals ("Ask Compliance"), vetting business partners ("Due Diligence"), a whistleblower system ("Let Us Know") and the integrated Case Management Tool.

As in the past, the option of submitting anonymous reports of potential compliance violations to the Corporate Compliance Office is still available. Employees and third parties alike can report potential violations of our Code of Conduct via the platform's landing page or the Klöckner & Co SE website. A 24/7 hotline is also available for this purpose. The toll-free telephone numbers in each country are provided on the Klöckner & Co SE website.

The effectiveness of our compliance management system is reflected in the figures: We had no serious breach of our guidelines to report this year, and none of our 11[2] reviews of individual business sites by Internal Audit identified any antitrust risks or corruption or bribery infringements.

Human rights in the supply chain

Klöckner & Co SE and the country organizations pay attention to ethically correct and compliant behavior in business dealings. This concerns both our own Company and all upstream parts of our value chain. We expect everyone in our supply chain to follow the same principles. The Chief Governance Officer (CGO) reports regularly to the Company's entire Management Board and the Supervisory Board on the latest compliance-related developments in the Group as well as on an ad hoc basis in urgent cases.

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

Supplier Code of Conduct for all core suppliers

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

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

[2] Data for the period October 1, 2019 to September 30, 2020.

Prudent and responsible product procurement is of special importance to Klöckner & Co. For example, a key goal in the procurement process is to ensure that minerals contained in our products are not from conflict particularly important concern for us as a distributor is the origin of the minerals incorporated in the products we sell.

The importance of this topic is also reflected in requirements laid down by our international customers, who expect us to provide clear proof of origin. Of particular interest in this regard are conflict minerals such as columbite tantalite (coltan), cassiterite, gold, wolframite and derivatives, which include tantalum, tin and tungsten. The annual review of our product portfolio in fiscal year 2020 showed that less than 1% of our products possibly contain tantalum, tin or tungsten.

Since the entry into force of the Dodd-Frank Wall Street Reform and Consumer Protection Act as well as notably the Conflict Minerals Rule, Klöckner & Co analyzes every year whether conflict minerals are used in the manufacture of the products concerned and, if so, whether they originate from the Democratic Republic of the Congo or neighboring states.

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

We expect our suppliers to retain the relevant documentary proof for five years and to submit it to Klöckner & Co on request. Should a supplier fail to provide proof of origin for conflict minerals, further purchases from that supplier are systematically blocked. The same applies if the supplier does not acknowledge the above principles regarding the source of conflict minerals. In the 2020 reporting year, no suppliers needed to be blocked for failure to provide proof.

Social commitment

Klöckner & Co operates in 13 countries worldwide, maintains some 140 sites and employs around 7,300 people. This gives rise to responsibility not only for our employees, but also toward the regions in which our headquarters and branches are located. We consequently give our commitment to the immediate surroundings of our sites and, in this way, play our part in meeting social challenges.

Taking responsibility for immediate surroundings

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

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

Social commitment enjoys a high priority at Klöckner & Co, which is why it is managed in the CEO's immediate orbit via the Corporate Office at the holding company and monitored by the Corporate Compliance Office. Projects and other matters are explored in regular consultations with the CEO. Our CEO Gisbert Rühl personally checks on our social commitment – especially activities in the region – several times a year, for example by visiting schools.

REGIONAL AID PROJECTS

Focus on improving education situation for children

Klöckner & Co has a clear strategy for supporting non-profit projects in Germany: our aim is to improve educational opportunities for disadvantaged children who live in our immediate vicinity over the long term. To achieve this goal, our contribution centers on local projects to educate children and young people or cater to their basic needs in Duisburg, where our headquarters are located. For over ten years now, we have focused on neighborhood work in the Marxloh area of Duisburg, where a large number of residents have a migrant background.

In this area, we work with schools, children's and youth services as well as regional charities. Klöckner & Co's engagement in the area is organized around five strategic pillars to support tomorrow's young professionals and thus make a significant contribution to strengthening the region. In the interest of continuity and sustainable results, we maintained our longstanding support in the five areas in the reporting year and drove it forward:

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

2. **Essential renovation works:** In the past, we have already renovated a youth center and renewed the school yard canopy at an elementary school in cooperation with the City of Duisburg. We provided another elementary school where space was tight with multifunctional rooms. A third school benefited from the restoration of a grand piano. Schools also received support for their IT equipment during the reporting year.

3. **Strong network:** Klöckner & Co frequently makes use of its strong network to enable Marxloh organizations to participate in exclusive projects, such as the annual "Wagner für Kinder" (Wagner for children) costume competition staged by the Bayreuth Festival in cooperation with the Fair Play foundation. Katharina Wagner, great-granddaughter of the composer Richard Wagner, joined with CEO Gisbert Rühl to visit Klöckner & Co's partner schools in Duisburg in 2019 and 2020. Together they designed costumes for the children's opera in Bayreuth. Klöckner & Co maintains an ongoing dialog with a regional foundation roundtable, thus expanding its cooperation network.

4. **School education projects:** Since 2013, Klöckner & Co has supported the German National Scholarship awarded by Roland Berger Foundation. This program promotes gifted children with a strong will to learn who come from socially disadvantaged families, with the aim of guaranteeing them the best possible education opportunities and enabling them to complete upper secondary education and/or go on to university. In this way, we significantly contribute to removing barriers to equal opportunities among people of different social backgrounds. A partner school in Marxloh is also a beneficiary of Teach First Deutschland gemeinnützige GmbH's "Fellow" project, through which college graduates provide support to disadvantaged school students in their regular lessons. In 2019, we expanded our involvement with the Tausche Bildung für Wohnen e.V. program and continued it in 2020. In this program, six teaching mentors support elementary school children during lessons, study time and their after-school programs, and also give other neighborhood children a helping hand with their challenging lives outside of their school activities.

5. Music and creative development: Joining forces with the Ruhr Piano Festival Foundation, we developed an education project to foster children's musical and artistic development at different types of schools. The project was launched at two schools in 2012. Our musical education work has earned supraregional recognition: After garnering the "Echo Klassik" award presented by Deutsche Phono-Akademie in the Fostering Young Talent category in October 2016, as well as the "Junge Ohren Preis" in November 2014, the education program was awarded the renowned "MIXED UP Preis" in 2018. The prize awarded by the Bundesvereinigung Kulturelle Kinder- und Jugendbildung e.V. (German Federation for Cultural Youth Education) and the Federal Ministry for Family Affairs, Senior Citizens, Women and Youth praised the long-term cooperation across institutions and sectors in the Long-Runner category. Despite the COVID-19 pandemic, we succeeded in offering music projects in small groups in 2020 as well.

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

Due to the COVID-19 pandemic, the Christmas party at headquarters in Duisburg was canceled in 2020. Instead, the Management Board decided to make a donation to the Stiftung Universitätsmedizin Essen foundation. This support was earmarked for fitting out a room for young cancer patients in the "blue ward" that is set aside as a retreat for teens and young adults. The room now features special IT equipment that they can use to make video calls to family and friends or stage video-game tournaments. With the virtual reality headsets provided, the young patients can explore different worlds and forget their illness and the hospital setting for a while.

In our international business, each country sets its own priorities within the framework of our donation policy. Our country organization in Switzerland, for example, has been strongly involved since 2005 in fostering young talent (under 23 years of age), stepping up as a Gold Partner in SwissSkills. It continued this work in 2020, when the competition took place despite the COVID-19 pandemic in a decentralized manner. The competition promotes top performance in some 60 training occupations and promotes appreciation for vocational training – particularly the dual educational and vocational system – in the public sphere. Group-wide procedural instructions give our country organizations a framework for such engagement. This way, we ensure that our activities have a common thrust while being tailored to individual conditions.

INTEGRATION OF REFUGEES

Linking IT skills and integration

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

ReDI is short for Readiness and Digital Integration. Its students are provided with laptops and can attend beginning and advanced programming courses free of charge. Additionally, students are each assigned a mentor to help them take the course content to a deeper level. We also have our own presence in Berlin with kloeckner.i, our Group Center of Competence for Digitalization. When filling new positions, we place special emphasis on recruiting ReDI School graduates. Internships prepare ReDI students for potential permanent employment at kloeckner.i, our digital subsidiary in Berlin.

It is particularly noteworthy that Klöckner & Co's engagement resulted in a new cooperation between schools in Duisburg's Marxloh neighborhood and the ReDI School. ReDI Kids has also been offering programming classes at Berlin schools since the beginning of 2020. This offering was replicated in Marxloh on CEO Gisbert Rühl's initiative. The concept is designed as a way for the ReDI team to support teachers as they impart digital skills to the students in their own classrooms.

UNIVERSITY EDUCATION

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

For some years now, we have supported the Germany Scholarship in collaboration with the German Federal Ministry of Education and Research. Primarily directed at talented and high-achieving college students, the scholarship gives consideration to specific family and social circumstances. Our aim here is to provide support so that students can excel both academically and socially as well as within the family. Students at the University of Duisburg-Essen needed special financial support during the reporting year, prompting Klöckner & Co to contribute to the social fund. The COVID-19 pandemic did not impact all the university's students equally. Four main groups needed fast, effective support in the form of scholarships: students who provide care for others, international students, students with disabilities and students who lack the necessary technical equipment.

ENVIRONMENT

In our business, it is not only economic criteria that play a role but also ecological and social criteria. In terms of environmental protection, we start with the environmental impacts of logistics because that is the area in which we have the greatest influence on reducing emissions. This is also a material reporting topic for Klöckner & Co. The Environment action area *refers to the matter of environmental issues, which is required in the HGB.*

Environmental impact of logistics

Environmental protection is an important part of our SHEQ policy – our internal occupational safety, health, environment and quality policy. The CEO is functionally responsible for the area of digitalization. Governance functions related to SHEQ fall under the purview of Logistics & Operations within the Digital Transformation central department. All other functions lie with the country organizations, which have their own logistics departments.

Optimizing logistics processes and reducing CO_2 emissions

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

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

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

In addition, our internal networks in each country organization are checked on an ongoing basis. By monitoring and reporting relevant KPIs such as transport, warehousing costs and shipments, we can see where networks require adjustment. In recent years, the results of this have included improvements in the warehouse structure in eastern Germany, the commissioning of a new central warehouse in France, and the restructuring – and in some cases expansion – of existing sites in Switzerland. Additional network adjustments were undertaken as part of the Surtsey transformation project, which was launched in the first half year of 2020: 16 of 19 sites, primarily in France and the USA, were closed. Thanks to the above-mentioned adjustments, we achieved further efficiency enhancements in 2020 that resulted in both cost savings and better environmental stewardship. This consolidation to a small number of sites increases truck capacity utilization. In addition, all sites at our country organization Kloeckner Metals UK and our German company Becker Stahl-Service are already certified to the ISO 14001 environmental standard, which also covers logistics.

Kloeckner Metals UK attained BES 6001[3] certification for responsible sourcing in 2019.

At the third level, the goods are delivered to customers from roughly 100 warehouse sites (initially in Europe only). Here, we pay particular attention to efficient delivery route planning, where key quality aspects include adherence to delivery dates along with ongoing optimum utilization of truck capacity and optimized route planning. This led us to launch a universal rollout of transportation planning software back in 2017. It is in operation throughout our EU country organizations with the exception of France. The transportation planning software delivers the data we need to reduce the fuel consumption of the trucks we use. This can include actions such as avoiding empty runs and fine-tuning delivery frequencies. Since the beginning of 2020, Klöckner & Co Deutschland, Kloeckner Metals UK and Kloeckner Metals Benelux have been testing the ePOD app as a way to further improve logistics processes. The app supports the drivers during the delivery routes and forms the basis for digital documentation and transparency along the supply chain. Klöckner & Co uses the data it gathers to plan routes better and enhance their efficiency. Several country organizations deploy state-of-the-art on-board computers that provide continuous feedback on driving behavior, vehicle speed and engine speed, thus helping to reduce truck fuel consumption and hence CO_2 emissions. In Germany, the drivers operating our modern fleet are provided with road training and regular feedback on their driving behavior. At Kloeckner Metals UK, too, the Safe & Fuel Efficient Driving program has been in place since 2017.

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

UN Global Compact "Business Ambition for 1.5°C"

For Klöckner & Co, the area where we have the greatest influence on environmental protection is logistics. Efficiency measures in transport go hand in hand with a reduction in CO_2 emissions. Above and beyond the three levels already discussed, we are currently developing comprehensive environmental measures along the entire supply chain that are connected to long-term goals. In January, Klöckner & Co was one of the first companies in Germany to sign up to the UN Global Compact Initiative "Business Ambition for 1.5°C" launched by pioneering companies world-wide, and we plan to align our business activities with it. Through appropriate and verifiable measures, the initiative aims to contribute to limiting the rise in global temperatures to 1.5°C by reducing greenhouse gases. We are currently in the target-development phase and are deriving the baseline data upon which to calculate a science-based reduction target within the framework of the Science Based Targets initiative (SBTi). As soon as the data has been collected and a target defined, we will submit the target to the SBTi for validation. Once it is validated, we will continue to work on implementing the goals to which we committed in the UN Global Compact "Business Ambition for 1.5°C." Our efforts in digitalization and our platform strategy support our climate ambitions, as they will enable us to anticipate steel demand with ever greater accuracy and further optimize logistics, thus reducing CO_2 emissions. The corporate departments Investor Relations, Internal Communications & Sustainability and Digital Transformation are managing the project based on this approach. Our CEO, Gisbert Rühl, is functionally responsible for both areas. The entire Management Board is also kept informed of progress of the project by the department heads.

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

DIGITALIZATION

At Klöckner & Co, the digital transformation of our business is an essential component in our strategy of becoming a platform company by automating our core processes. In addition to the clear opportunities presented by the digital transformation, however, we also recognize the challenges for our employees. We are meeting this culture change with measures described in the Digitalization action area*. This action area refers to a matter specific to the Group and describes the material topic of the digital transformation.*

The digital transformation at Klöckner & Co

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

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

Digital Academy course registrations increase by 5,000, more than doubling the previous number

To ensure that everyone embraces and sees themselves as part of the changes, we have prepared a broad range of measures offering all employees the opportunity to acquire digital know-how at their own speed. Employees have access to job-specific, in-house training and language courses via our Group-wide Digital Academy in order to selectively broaden their digital skills. This enables them to take part in online training on a voluntary basis during office hours on our premises or from a home office. The academy offers numerous online courses for users, mostly with the aim of enhancing digital skills. More than 9,000 employees have already signed up for the courses the Digital Academy has to offer. When things got started in 2016, there were only a few hundred users. In 2020, we logged 5,000 course registrations, more than doubling the previous aggregate number. The course program comprises more than 30 offerings with over 100 hours of instruction altogether. Participants' feedback and requests are also taken into account in the development of new course topics so that they have a hand in shaping future training packages.In 2020, our further training focused on such topics as digitalization basics, coding, online marketing, artificial intelligence and digital business models.

The open learning format known as "Espresso Call," focusing on digital topics, has firmly established itself since the beginning of the year. The brief sessions have seen a growing number of participants since their inception. Held on Microsoft Teams, these live video sessions last 30-60 minutes each and feature experts who explain all the essentials of digital and strategic topics. The interactive calls, which give everyone a chance to ask questions, are offered in German and English.

In order to provide more in-depth practical knowledge of digital work methods, we have also implemented the Group-internal Digital Experience exchange program within our country organizations. Participants' digital and individual skills are further enhanced in a several-week stay at our digital unit kloeckner.i in Berlin. In return, the exchange with colleagues who are mostly involved in business operations gives kloeckner.i first-hand expertise in steel. Initially designed primarily for employees in Sales, the international exchange program was later expanded to other areas of the Company such as HR, and was even used by country CEOs in 2020.

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

Connecting through Group-wide collaboration tools

As early as 2014, Klöckner & Co introduced the Yammer social network throughout the Company. Today, some 75% of employees use the hierarchy-free communications portal to exchange ideas, hold discussions and as a valuable information resource. The CEO invites all employees to engage in open dialog on Yammer and uses the tool – in addition, for instance, to regular town hall meetings – as an information channel for actions such as communicating on the progress of our digitalization strategy.

In order to enhance cooperation within the Group, promote agility and inspire enthusiasm for innovations, Klöckner & Co continued with the rollout and refinement of #DigiDesk in the reporting year. This lets the workforce make use of all Microsoft Office 365 applications via the cutting-edge intranet. The SharePoint environment also includes the Digital Academy and the employee magazine, which has been available in an interactive online format since mid-2020.

Agility is a key prerequisite for speeding up internal processes and responding instantly to customers' changing wishes – and thus gaining an edge over competitors in the marketplace. A wide range of courses, training and communications initiatives such as Yammer campaigns and posters have helped to establish agile working methods ever more firmly in the Group. This lets us meet the challenges of digital transformation and forge a link between the internal cultural shift and the operational objectives of our digitalization strategy. The growing number of employees registered at our Digital Academy and active in the corresponding Yammer group is testament to our employees' improved digital skills and new way of thinking. This is similarly reflected in the constructive suggestions and ideas put forward by employees with regard to optimizing the speed and quality of our processes.

The transformation we initiated early on, coupled with our already advanced level of digitalization, made it possible to instantly and smoothly transfer many of our activities to the home office environment at the beginning of the COVID-19 pandemic. Thanks to our high degree of digitalization, we remained operational during the crisis. The major negative economic impacts of the COVID-19 pandemic on Klöckner & Co's core business were significantly cushioned by positive effects from digitalization and restructuring under the ongoing Surtsey project in particular.

With the Surtsey project, we are also taking advantage of opportunities offered by the COVID-19 crisis to significantly step up the pace of Klöckner & Co's digital transformation into a platform company. In addition, we are continuing to optimize our site network by closing a total of 19 smaller branches and cutting costs across the organization. The workforce will be reduced by a total of more than 1,200 employees. Implementation of the measures is proceeding according to plan, with 16 sites already closed and the workforce reduced by some 1,000 as of January 2021. In the reporting period, restructuring expenses were incurred in the amount of €59 million, largely for the Surtsey project (see (6) Special items affecting the results in the consolidated financial statements). The restructuring expenses incurred for Surtsey in the past fiscal year will pay off in the long term through a considerably improved earnings situation and lower working capital. For the end of 2021, we anticipate that 55% of our Group sales will already be generated via digital channels. With higher profitability as a result of Surtsey and the increased digitalization level, we are paving the way for unlocking additional growth potential.

CUSTOMERS

In the **Customers action area** *we describe the customer-centric approach with which we conduct our business. Customer satisfaction is a topic of great importance to us. This along with the resulting customer loyalty are key factors for us that secure Klöckner & Co's long-term market success. This action area refers to a matter specific to the Group.*

Customer satisfaction

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

We aim for a high level of customer proximity both personally and geographically. As a result, the country organizations have full responsibility for ensuring customer satisfaction. Headquarters cannot maintain customer relationships in the same way that local offices are able to. The country organizations work on customer satisfaction every day through their close customer relationships, collaboration and surveys.

Kloeckner Assistant automates the sales process

That is why, in keeping with the design thinking approach, we always conceptualize products and services, sales channels and innovations as well as the development of digital tools and applications from the customer's perspective. Accordingly, we actively involve our customers in the process and selectively analyze their personal wishes and needs. This enables us to fulfill customers' needs faster and more efficiently thanks to a variety of digital tools, which we continue to develop on an ongoing basis – applications such as the Kloeckner Assistant, which automates large parts of the administrative sales process. For customers, that means that they receive their quotes within seconds and can order at the touch of a button rather than waiting for hours or even days for an answer. Such time frames are not unusual when quotes need to be written up and confirmed manually.

Another good example of this is the ePod app, which streamlines logistics processes at Klöckner & Co and boosts customer satisfaction at the same time. Klöckner & Co Deutschland, Kloeckner Metals UK and Kloeckner Metals Benelux have been testing this app since the beginning of 2020. It lets drivers transfer information in real time during their delivery routes. The electronic proof of delivery adds real-time data to the planning results. If, for example, goods delivered were defective, Sales usually heard about it from the customer first because the truck driver often supplied this information only after completing the route. ePod thus closes the gap between transport planning and the physical delivery to the customer.

We make use of various agile working methods from the start-up world for this purpose. To keep product development moving forward and on target, we conduct results-driven interviews with customers and use new insight methods such as mapping customer journeys. These involve visualizing the customer experience, from initial contact with the product through the entire use process to long-term product adoption. The resulting insights help us fine-tune our products, tools and services. On this basis, we first develop what is referred to as a “minimum viable product” – one that initially meets just the most basic requirements. We also apply the Lean Startup approach in a variety of in-house projects. This approach makes us significantly faster in that we meet only the most important requirements in an initial stage. Improvements can always be added progressively later on. That way, we also avoid the risk of tying up capacity for new product features that ultimately offer no added value for customers.

Our digital unit in Berlin, kloeckner.i, maintains regular contact with customers to obtain information on their requirements of the digital product portfolio and their level of satisfaction with it, and to develop it in line with their needs. Again in 2020, kloeckner.i worked continuously to further improve the range of digital product offerings and increase user friendliness. This includes new functions in the Onlineshop that make the attributes of the various product variants easier to recognize. In addition, we aim to fulfill our customers’ needs by making their invoices visible in their user account as soon as the product has been delivered. A display of the quantities available including an underlying, newly implemented sales logic was also added to the Onlineshop in the reporting year. This enables the merchants to market products that are not selling well at lower prices in order to free up space in the warehouse.

At Kloeckner Metals Corporation in the USA, we have successfully introduced the first customers to the online shop tool Direct. The Direct tool was developed in cooperation with our customers and is an example of Klöckner’s customer-oriented business approach that aims to lighten customers’ workload. The tool helps to rationalize the purchasing process when it comes to choosing work materials, adapting orders and communicating with employees in Sales and Customer Service.

Customer surveys

In addition, international customers are regularly asked whether they are satisfied with the service provided by Klöckner & Co. The accumulated customer feedback helps to continuously improve the digital system landscape and workflows. In 2020, nearly 80% of customers said they were very satisfied with Klöckner & Co. Some 200 responses were received via the Onlineshops at the country organizations, where surveys are conducted on an ongoing basis in which existing customers can give feedback. The results are evaluated by kloeckner.i and discussed internally as well as with the country organizations.

80% of customers using the Onlineshop are satisfied

All customers of our German and Austrian country organizations are asked to give their opinions on various aspects through annual surveys. Aspects covered include availability, product range, product quality, product availability, the processing range, employee proficiency, delivery time, delivery punctuality, order documentation and complaint handling. In 2020, Klöckner Deutschland received an overall grade of 1.84 from 1,136 respondents (2019: 2.25) and our Austrian country organization was rated 1.75 by 100 respondents (2019: 1.75), each on a scale of 1 (very satisfied) to 6 (not at all satisfied). The regular customer surveys we carry out in our country organizations help to ensure the effectiveness of our working approaches and gain insights into how they are being received.

In the USA, a survey was conducted in the reporting year of some 800 customers to analyze customer loyalty with a net promoter score (NPS). The aim of this is to obtain meaningful opinions on the Part Manager – a digital platform customers can use to conveniently order and track parts – as well as its influence on perceptions of the company as a whole. Responses to the key question about whether respondents would recommend the Part Manager came in at 8.65 out of 10 points on average. Kloeckner Metals Corporation's total net promoter score, which also takes into account other factors such as organizational data and customer characteristics, was 52 on a scale of –100 to +100. That represents a further improvement of two points compared with the 2019 score, which was already considered very good.

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

Independent Practitioner's Report on a Limited Assurance Engagement on Non-financial Reporting[1]

To Klöckner & Co SE, Duisburg

We have performed a limited assurance engagement on the separate non-financial group report pursuant to § (Article) 315b Abs. (paragraph) 3 HGB ("Handelsgesetzbuch": "German Commercial Code") of Klöckner & Co SE, Duisburg, (hereinafter the "Company") for the period from 1 January to 31 December 2020 (hereinafter the "Non-financial Report").

Responsibilities of the Executive Directors
The executive directors of the Company are responsible for the preparation of the Non-financial Report in accordance with §§ 315c in conjunction with 289c to 289e HGB.

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

Independence and Quality Control of the Audit Firm
We have complied with the German professional provisions regarding independence as well as other ethical requirements.

Our audit firm applies the national legal requirements and professional standards – in particular the Professional Code for German Public Auditors and German Chartered Auditors ("Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer": "BS WP/vBP") as well as the Standard on Quality Control 1 published by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW): Requirements to quality control for audit firms (IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis - IDW QS 1) – and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

[1] PricewaterhouseCoopers GmbH has performed a limited assurance engagement on the German version of the separate non-financial group report and issued an independent practitioner's report in German language, which is authoritative. The following text is a translation of the independent practitioner's report.

Practitioner's Responsibility

Our responsibility is to express a limited assurance conclusion on the information in the Non-financial Report based on the assurance engagement we have performed.

Within the scope of our engagement we did not perform an audit on external sources of information or expert opinions, referred to in the Non-financial Report.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or

Reviews of Historical Financial Information, issued by the IAASB. This Standard requires that we plan and perform the assurance engagement to allow us to conclude with limited assurance that nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 1 January to 31 December 2020 has not been prepared, in all material aspects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

In a limited assurance engagement, the assurance procedures are less in extent than for a reasonable assurance engagement, and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the practitioner's judgment.

Within the scope of our assurance engagement, we performed amongst others the following assurance procedures and further activities:

- Obtaining an understanding of the structure of the sustainability organization and of the stakeholder engagement
- Inquiries of the Company's personnel involved in the preparation of the Non-financial Report regarding the preparation process, the internal control system relating to this process and selected disclosures in the Non-financial Report
- Identification of the likely risks of material misstatement of the Non-financial Report
- Assurance procedures performed at site level
- Analytical evaluation of selected disclosures in the Non-financial Report
- Comparison of selected disclosures with corresponding data in the group management report
- Evaluation of the presentation of the non-financial information

Assurance Conclusion

Based on the assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 1 January to 31 December 2020 has not been prepared, in all material aspects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

Intended Use of the Assurance Report

We issue this report on the basis of the engagement agreed with the Company. The assurance engagement has been performed for purposes of the Company and the report is solely intended to inform the Company about the results of the limited assurance engagement. The report is not intended for any third parties to base any (financial) decision thereon. Our responsibility lies only with the Company. We do not assume any responsibility towards third parties.

Frankfurt, 25 February 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Nicolette Behncke
WIRTSCHAFTSPRÜFERIN
[German public auditor]

ppa. Juliane von Clausbruch

FINANCIAL STATEMENTS

of Klöckner & Co SE

Consolidated financial statements

Consolidated statement of income

for the 12-month period ending December 31, 2020

(€ thousand)	Notes	2020	2019
Sales	7	5,130,106	6,314,719
Changes in inventory	16	926	– 11,003
Own work capitalized	15	1,806	1,526
Other operating income	8	21,323	76,286
Cost of materials	9	– 4,083,804	– 5,146,991
Personnel expenses	10	– 599,726	– 626,701
Depreciation and amortization	15	– 145,781	– 137,298
thereof impairment losses	*15*	*– 14,024*	*– 4,11*
Other operating expenses	11	– 418,412	– 469,371
Impairment losses trade receivables		– 80	563
Operating result		**– 93,642**	**1,730**
Income from investments		**300**	**-**
Finance income		803	848
Finance expenses		– 31,286	– 41,606
Financial result	**12**	**– 30,483**	**– 40,758**
Income before taxes		**– 123,825**	**– 39,028**
Income taxes	13	9,462	– 15,848
Net income		**– 114,363**	**– 54,876**
thereof attributable to			
– shareholders of Klöckner & Co SE		*– 115,927*	*– 56,158*
– non-controlling interests		*1,564*	*1,282*
Earnings per share (€/share)	14		
– basic		– 1.16	– 0.56
– diluted		– 1.16	– 0.56

Statement of comprehensive income

for the 12-month period ending December 31, 2020

(€ thousand)	Notes	2020	2019
Net income		**– 114,363**	**– 54,876**
Other comprehensive income not reclassifiable			
Actuarial gains and losses (IAS 19)	23	8,396	– 29,592
Related income tax	13	– 3,682	– 3,920
Gain/loss from equity instruments	29	– 490	– 2,502
Total		**4,224**	**– 36,014**
Other comprehensive income reclassifiable			
Foreign currency translation		– 27,796	22,550
Gain/loss from cash flow hedges		-	5
Total		**– 27,796**	**22,555**
Other comprehensive income		**– 23,572**	**– 13,459**
Total comprehensive income		**– 137,935**	**– 68,335**
thereof attributable to			
– shareholders of Klöckner & Co SE		*– 139,474*	*– 69,540*
– non-controlling interests		*1,539*	*1,205*

Consolidated statement of financial position

as of December 31, 2020

ASSETS

(€ thousand)	Notes	December 31, 2020	December 31, 2019
Non-current assets			
Intangible assets	15 (a)	109,085	130,507
Property, plant and equipment	15 (b)	743,770	801,861
Other financial assets	18	19,448	14,987
Other non-financial assets	18	49,348	9,523
Current income tax receivable	13	1,887	4,150
Deferred tax assets	13	8,324	6,534
Total non-current assets		**931,862**	**967,562**
Current assets			
Inventories	16	855,591	1,042,651
Trade receivables	17	517,372	579,825
Contract assets	17	25,954	31,607
Commissions, discounts and rebate receivables	17	43,253	63,827
Current income tax receivable	13	18,927	10,583
Other financial assets	18	14,876	11,935
Other non-financial assets	18	23,542	25,730
Cash and cash equivalents	19	172,566	182,520
Assets held for sale	20	9,011	-
Total current assets		**1,681,092**	**1,948,678**
Total assets		**2,612,954**	**2,916,240**

EQUITY AND LIABILITIES

(€ thousand)	Notes	December 31, 2020	December 31, 2019
Equity			
Subscribed capital		249,375	249,375
Capital reserves		568,729	575,060
Retained earnings		235,923	345,569
Accumulated other comprehensive income		– 17,997	5,550
Equity attributable to shareholders of Klöckner & Co SE		**1,036,030**	**1,175,554**
Non-controlling interests		7,108	6,912
Total equity	**21**	**1,043,138**	**1,182,466**
Non-current liabilities			
Provisions for pensions and similar obligations	23	287,542	284,558
Other provisions and accrued liabilities	24	15,644	17,313
Non-current financial liabilities	25	334,038	563,961
Other financial liabilities	27	2,313	144
Deferred tax liabilities	13	43,321	42,163
Total non-current liabilities		**682,858**	**908,139**
Current liabilities			
Other provisions and accrued liabilities	24	138,742	96,954
Income tax liabilities	13	7,397	10,400
Current financial liabilities	25	186,617	60,742
Trade payables	26	475,218	599,248
Other financial liabilities	27	37,523	32,484
Other non-financial liabilities	27	41,461	25,807
Total current liabilities		**886,958**	**825,635**
Total liabilities		**1,569,816**	**1,733,774**
Total equity and liabilities		**2,612,954**	**2,916,240**

Consolidated statement of cash flows 2020

(€ thousand)	Notes	2020	2019
Net income		– 114,363	– 54,876
Income taxes	13	– 9,462	15,848
Financial result	12	30,483	40,758
Depreciation, amortization and impairments of non-current assets	15	145,781	137,298
Other non-cash income/expenses		– 109	– 138
Gain on disposal of non-current assets		– 2,336	– 47,283
Change in net working capital			
Inventories	16	155,599	214,552
Trade receivables incl. contract assets and Commissions, discounts and rebates receivables	17	61,839	144,010
Trade payables	26	– 100,655	– 181,083
Change in other operating assets and liabilities		23,170	– 14,838
Interest paid	33	– 23,560	– 33,094
Interest received		748	1,064
Income taxes paid		– 6,152	– 17,984
Cash flow from operating activities		**160,983**	**204,234**
Proceeds from the sale of non-current assets		19,333	54,900
Payments for intangible assets, property, plant and equipment		– 76,077	– 49,064
Payments for financial assets		– 5,312	– 2,752
Cash flow from investing activities		**– 62,056**	**3,084**
Dividend payments to shareholders of Klöckner & Co SE		-	– 29,925
Dividend payments to non-controlling interests		– 1,393	– 1,053
Borrowings	33	59,627	5,075
Repayment of financial liabilities	33	– 135,139	– 90,547
Repayment of leasing liabilities	33	– 45,668	– 46,243
Proceeds from derivates of financing activities		18,102	– 6,458
Cash flow from financing activities		**– 104,471**	**– 169,151**
Changes in cash and cash equivalents		**– 5,544**	**38,167**
Effect of foreign exchange rates on cash and cash equivalents		– 4,410	3,009
Cash and cash equivalents at the beginning of the period	19	182,520	141,344
Cash and cash equivalents at the end of the reporting period as per statement of financial position		**172,566**	**182,520**

See Note 33 for notes on the cash flow statement.

Summary of changes in consolidated equity

(€ thousand)	Subscribed capital of Klöckner & Co SE	Capital reserves of Klöckner & Co SE	Retained earnings
Balance as of January 1, 2019	**249,375**	**682,412**	**324,638**
Other comprehensive income			
Foreign currency translation	-	-	-
Gain/loss from equity instruments	-	-	-
Gain/loss from net investment hedges	-	-	-
Actuarial gains and losses (IAS 19)	-	-	-
Related income tax	-	-	-
Reclassification to profit and loss due to sale of foreign subsidiaries	-	-	-
Other comprehensive income	**-**	**-**	**-**
Net income	-	-	– 56,158
Total comprehensive income	**-**	**-**	**– 56,158**
Change of non-controlling interests	-	-	– 338
Dividends	-	-	– 29,925
Withdrawal from capital reserves	-	– 107,352	107,352
Balance as of December 31, 2019	**249,375**	**575,060**	**345,569**
Balance as of January 1, 2020	**249,375**	**575,060**	**345,569**
Other comprehensive income			
Foreign currency translation	-	-	-
Gain/loss from equity instruments	-	-	-
Actuarial gains and losses (IAS 19)	-	-	-
Related income tax	-	-	-
Other comprehensive income	**-**	**-**	**-**
Net income	-	-	– 115,927
Total comprehensive income	**-**	**-**	**– 115,927**
Change of non-controlling interests	-	-	– 50
Dividends	-	-	-
Withdrawal from capital reserves	-	– 6,331	6,331
Balance as of December 31, 2020	**249,375**	**568,729**	**235,923**

	Accumulated other comprehensive income					
	Currency translation adjustments	Actuarial gains and losses (IAS 19)	Fair value adjustments of financial instruments	Equity attributable to shareholders of Klöckner & Co SE	Non-controlling interests	Total
	151,715	**– 131,196**	**– 1,584**	**1,275,360**	**6,282**	**1,281,642**
	22,547	-	-	22,547	3	22,550
	-	-	– 2,502	– 2,502	-	– 2,502
	-	-	5	5	-	5
	-	– 29,490	-	– 29,490	– 102	– 29,592
	-	– 3,942	-	– 3,942	22	– 3,920
	-	-	-	-	-	-
-	**22,547**	**– 33,432**	**– 2,497**	**– 13,382**	**– 77**	**– 13,459**
	-	-	-	– 56,158	1,282	– 54,876
	22,547	**– 33,432**	**– 2,497**	**– 69,540**	**1,205**	**– 68,335**
	– 3	-	-	– 341	478	137
	-	-	-	– 29,925	– 1,053	– 30,978
	-	-	-	-	-	-
	174,259	**– 164,628**	**– 4,081**	**1,175,554**	**6,912**	**1,182,466**
	174,259	**– 164,628**	**– 4,081**	**1,175,554**	**6,912**	**1,182,466**
	– 27,782	-	-	– 27,782	– 14	– 27,796
	-	-	– 490	– 490	-	– 490
	-	8,416	-	8,416	– 20	8,396
	-	– 3,691	-	– 3,691	9	– 3,682
	– 27,782	**4,725**	**– 490**	**– 23,547**	**– 25**	**– 23,572**
	-	-	-	– 115,927	1,564	– 114,363
	– 27,782	**4,725**	**– 490**	**– 139,474**	**1,539**	**– 137,935**
	-	-	-	– 50	50	-
	-	-	-	-	– 1,393	– 1,393
	-	-	-	-	-	-
	146,477	**– 159,903**	**– 4,571**	**1,036,030**	**7,108**	**1,043,138**

Notes to the consolidated financial statements

of Klöckner & Co SE, Duisburg, as of December 31, 2020

(1) Company information

Klöckner & Co SE is a listed corporation domiciled at Am Silberpalais 1, Duisburg, Germany and entered in the commercial register of Duisburg Local Court under HRB 20486. The Klöckner & Co Group is one of the largest producer-independent steel and metal distributors and one of the leading steel service center companies worldwide.

The consolidated financial statements of Klöckner & Co SE, as the ultimate parent company, and its subsidiaries (the Klöckner & Co Group) were authorized for submission to the Supervisory Board by resolution of the Management Board on February 25, 2021. The Supervisory Board's responsibility is to audit such financial statements and to issue a statement as to whether it approves the consolidated financial statements.

(2) Basis of accounting

The consolidated financial statements as of December 31, 2020 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and with the additional require-ments under Section 315e (1) of the German Commercial Code (Handelsgesetzbuch/HGB). All binding IFRS and the associated interpretations of the IFRS Interpretations Committee (IFRIC) as of December 31, 2020 have been applied.

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

The consolidated financial statements are prepared in euros. Unless otherwise indicated, all amounts are stated in thousands of euros (€ thousand). There may be discrepancies relative to the unrounded figures.

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

(3) Basis of consolidation and consolidation methods

Basis of consolidation
The consolidated financial statements incorporate the financial statements of Klöckner & Co SE and the companies it controls (subsidiaries).

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

Intra-Group receivables, liabilities, balances, income and expenses are eliminated in consolidation. Deferred taxes are recognized for consolidation adjustments, and deferred tax assets and liabilities are offset against each other where they relate to taxes levied by the same taxation authority and to the same period.

The number of consolidated companies changed as follows during the year under review:

	2020	2019
Consolidated entities at the beginning of the financial year*)	65	69
– mergers	– 5	– 2
– disposals and liquidations	– 1	– 2
Consolidated entities at the end of the financial year	**59**	**65**
thereof domestic entities including Klöckner & Co SE)*	*13*	*13*

*) Including consolidated special-purpose entities.

As in the prior year, two subsidiaries that do not have a significant impact on the Group's results of operations, financial position and net assets are not consolidated. A list of affiliated companies included in the consolidated financial statements is attached as an annex to the notes.

Special-purpose entities

Two special-purpose entities exist in connection with the Group's European asset-backed securitization program (ABS program), of which one entity was suspended as part of the restructuring of the ABS program in November 2020 and has not carried out any activities since. The interests in the special-purpose entity that remains operational are held by an independent and privately owned service company that is responsible for accounting in the parent. The entity purchases merchandise receivables from the subsidiaries participating in the ABS program on contractually agreed terms, financing the purchases with conduit credits refinanced by commercial paper issues or loans granted by the banks involved. The rating required for the commercial paper is ensured by maintaining accounts receivable reserves and meeting performance indicators.

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

Klöckner & Co SE is contractually responsible for payment execution, reporting, management of the purchased receivables, including credit management and collection of receivables in the special-purpose entity. In addition, Klöckner & Co determines the factor that a subsidiary is required to pay in order to cover all running costs of the special-purpose entity. The special-purpose entity is controlled by Klöckner & Co SE and is therefore included in the consolidated financial statements. It is subject to control due to the fact that the Group is exposed to variable returns from the special-purpose entity and is able to influence those returns with its control over the entity.

The loan extended by Klöckner & Co SE to Klöckner Receivables Funding (DAC), Dublin, Ireland, under the ABS program in Germany was repaid in full in 2020.

The ABS program in the USA was terminated in fiscal year 2020. The special-purpose entity existing for this purpose (NC Receivables Corporation, Wilmington, Delaware, USA) was merged with Kloeckner Metals Corporation, Wilmington, Delaware, USA.

The companies participating in the program continue to be assigned responsibility by Klöckner & Co SE for collection and receivables management, and bear all related costs but receive corresponding remuneration. They also cover the running costs of the special-purpose entity.

(4) Acquisitions and disposals

The group structure changed, as listed below, as a result of the following acquisitions and disposals during fiscal years 2020 and 2019, with corresponding impacts on the presentation of the results of operations, financial position and net assets.

ACQUISITIONS

No companies were acquired either in the reporting year or in the prior year.

DISPOSALS, MERGERS AND LIQUIDATIONS

2020

A substantial merger was carried out in Switzerland as of January 1, 2020: Debrunner Acifer SA Giubiasco, Giubiasco, Debrunner Acifer SA Romandie, Crissier, Debrunner Acifer AG Wallis, Visp, and Debrunner Acifer Bläsi AG, Bern, were merged with Debrunner Acifer AG, St. Gallen.

XOM Materials Inc., Wilmington, Delaware, USA, was liquidated on June 23, 2020.

NC Receivables Corporation, Wilmington, Delaware, USA, was merged with Kloeckner Metals Corporation, Wilmington, Delaware, USA, on November 16, 2020.

2019

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

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

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

(5) Significant accounting policies

Currency translation

Transactions in foreign currency are translated at the transaction date exchange rate. Monetary items are translated at the reporting date exchange rate. Translation differences arising on the measurement of monetary assets (except exchange differences on net investments) or of monetary liabilities are recognized, regardless of any hedging, in profit or loss as part of other operating income or expenses.

In accordance with the functional currency approach, the annual financial statements of foreign Group companies prepared in foreign currency are translated into euros by the modified current rate method. All subsidiaries conduct their business independently in their domestic markets. As such, the functional currency is the local currency in each case. The assets and liabilities of subsidiaries are translated at the reporting date closing exchange rate. Income and expenses are translated at the transaction date exchange rate, approximated as the average exchange rate for the reporting period. All translation differences are recognized in other comprehensive income and are not recognized in profit or loss until the period of a subsidiary's disposal.

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

	Closing rate		Average rate	
€1=	December 31, 2020	December 31, 2019	Jan. 1 - Dec. 31, 2020	Jan. 1 - Dec. 31, 2019
Brazilian Real (BRL)	6.3735	4.5157	5.8943	4.4134
Pound Sterling (GBP)	0.8990	0.8508	0.8897	0.8778
Swiss Franc (CHF)	1.0802	1.0854	1.0705	1.1125
US–Dollar (USD)	1.2271	1.1234	1.1422	1.1195

Impairments

The Group assesses at each reporting date whether there is any indication that intangible assets or property, plant and equipment may be impaired. If there is an indication that an asset may be impaired, its recoverable amount is measured in order to determine the size of any impairment loss to be recognized. The recoverable amount is the greater of fair value less costs of disposal and value in use. In the event that a recoverable amount for the specific asset cannot be estimated, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs. If an impairment loss recognized in prior periods for an asset other than goodwill no longer exists or has decreased, the carrying amount of the asset or cash-generating unit is increased through profit or loss to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years.

Goodwill arising in business combinations is tested for impairment at least annually. The impairment test is performed at the level of the CGU to which the goodwill has been assigned. In the Klöckner & Co Group, the two CGUs Becker Stahl-Service GmbH (BSS) and Switzerland have a goodwill asset. Goodwill is tested for impairment in the fourth quarter of each fiscal year or whenever there is an indication that it may be impaired. If the carrying amount exceeds the recoverable amount, an impairment loss is recognized in the amount of the difference and cannot be reversed in subsequent periods.

The recoverable amount is the greater of fair value less costs of disposal and value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or CGU. Value in use and fair value less costs of disposal are usually determined using a DCF approach. The estimated cash flows are based on the Company's current three-year business plan and management's estimates for each business unit. The cost of capital used reflects the risk specific to the underlying business and the country in which the business operates. The interest rates are based among other things on a peer group analysis. The composition of the peer group is regularly reviewed and modified as necessary.

For CGUs whose recoverable amount is less than their carrying amount, fair values are determined at the level of individual assets. Detailed information is provided in Note 15 (b) (Property, plant and equipment). Depending on future changes in those fair values, additional impairment losses and impairment reversals cannot be ruled out.

Impairment losses are presented separately in the income statement under depreciation and amortization.

Government grants and government assistance
Grants are recognized in profit or loss over the periods in which the related costs are recognized in expense.

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

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

Presentation of the consolidated statement of financial position and consolidated statement of income
Individual items have been combined in the consolidated statement of financial position and the consolidated statement of income; further information is provided separately in these Notes. Assets and liabilities expected to be realized or settled within one year are classified as current.

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

Estimates, judgments and assumptions
The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual amounts may differ from these estimates. The estimates and the underlying assumptions are reviewed on an ongoing basis. Changes in estimates are recognized in the period of the change if the change affects that period only. If more than one period is affected, the change is reflected in the period of the revision and subsequent periods.

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

	Note
Judgements	
- Determination of scope of consolidation in relation to special-purpose entities, where there is no majority of voting rights or capital	3
- Assessment of intangible assets and property, plant and equipment for triggering events for an impairment	15 (a), (b), (c)
Estimates and assumptions	
- Measurement of intangible assets and property, plant and equipment acquired in a business combination within the meaning of IFRS 3	4
- Measurement of the net realizable value for inventories	16
- Recognition and Measurement of tax receivables related to the estimation if sufficient taxable income is available	13
- Assumptions regarding discount rates, mortality rates and, where applicable, expected returns on plan assets for the measurement of provision for pensions and similar obligations	23
- Recognition and measurement of other provisions	24

Accounting effects of COVID-19 pandemic

The COVID-19 pandemic essentially had an impact on the following aspects of accounting when preparing the consolidated financial statements:

	Note
Estimates and assumptions	
- Assumptions on the duration and impact of the pandemic in connection with the forecast of cash flows for the impairment test according to IAS 36	15
- Estimation of future probabilities of default when calculating expected credit losses for trade receivables in accordance with IFRS 9	30

Allowances for short-time work and similar aid

During the COVID-19 pandemic, governments have offered various support packages to companies. Klöckner & Co has implemented short-time work programs in some countries. However, affected employees receive between 80% and 100% of their regular salaries while working reduced hours. Employers are reimbursed in full or in part for the personnel expenses associated with the lost working time. This relieved personnel expenses by €5 million.

881 employees were affected at Klöckner & Co. As of December 31, 2020, the Company was entitled to claims against state organizations amounting to €98 thousand.

Tax relief

The Coronavirus Aid, Relief and Economic Security Act (CARES Act) passed in the USA in March 2020 introduces the option of carrying back tax losses for 2019 and 2020 to 2017 and 2018. Application of this measure yielded tax income of €13 million in the USA.

New accounting standards and interpretations

The following standards were applied for the first time in fiscal year 2020:

Standard/Interpretation
Amendments to IAS 1 and IAS 8 (Definition of Material)
Amendments to References to the Conceptual Framework in IFRS Standards
Amendments to IFRS 3 (Definition of a Business)
Amendments to IFRS 9, IAS 39 and IFRS 7 (Interest Rate Benchmark Reform)

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

Amendments to References to the Conceptual Framework in IFRS Standards were published on March 29, 2018. They relate to changes in references to the IFRS Conceptual Framework in various standards and interpretations.

On March 29, 2018, the IASB published the revised Conceptual Framework, consisting of a new introductory section headed "Status and purpose of the conceptual framework" and what are now eight main chapters. It now includes chapters on "The reporting entity" and "Presentation and disclosure"; the chapter "Recognition" was supplemented by "Derecognition." There are also substantive changes, such as the fact that income is no longer divided into revenues and gains. The new Conceptual Framework was accompanied by amendments to references to the Conceptual Framework in various standards.

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

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

Initial application of the amended standards had no material impact on the consolidated financial statements of Klöckner & Co SE.

The table below lists the published standards and interpretations not yet applied in the Klöckner & Co Group:

Standard/Interpretation	Mandatory application
Endorsed by the EU until authorization date for issuance	
Amendments to IFRS 9, IAS 39 and IFRS 7 (Interest Rate Benchmark Reform Phase 2)	2021
Amendments to IFRS 4 (Insurance Contracts)	2021
Amendments to IFRS 16 (Leases: COVID-19 Related Rent Concessions)	2020
EU endorsement outstanding	
Amendments to IFRS 3, IAS 16, IAS 37 and Annual Improvements 2018–2020	2022
Amendments to IAS 1 (Classification of Liabilities as Current or Non-current including Deferral of Effective Date)	2023
IFRS 17 (Insurance Contracts)	2023
Amendments to IFRS 10 and IAS 28 (Sale or Contribution of Assets between an Investor and its Associate or Joint Venture)	indefinite

On January 23, 2020, the IASB published amendments to IAS 1 clarifying the criteria for classifying liabilities as current or non-current. In the future, “rights” that the entity has at the end of the reporting period comprise the sole criterion for classification of a liability. Supplementary guidance is also provided on interpretation of the criterion “right to defer settlement for at least twelve months” together with clarification of the term “settlement.”

On May 14, 2020, the IASB published amendments to IFRS 3, IAS 16 and IAS 37, as well as Annual Improvements to IFRS 1, IFRS 9, IFRS 16 and IAS 41. The amendments update a reference in IFRS 3 to refer to the 2018 Conceptual Framework rather than the 1989 Conceptual Framework. They also add a requirement that, for transactions and other events within the scope of IAS 37 or IFRIC 21, an acquirer applies IAS 37 or IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination. Furthermore, they add an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination. The amendments to IAS 16 prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in operating profit. The costs of testing whether an item of property, plant and equipment is functioning properly continue to be an example of directly attributable costs.

The amendments to IAS 37 specify that the “cost of fulfilling” a contract comprises the “costs that relate directly to the contract.” Costs that relate directly to a contract consist of either the incremental costs of fulfilling the contract (examples include direct labor or materials) or an allocation of other costs that relate directly to fulfilling contracts (such as the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

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

On May 28, 2020, the IASB published COVID-19-related amendments to IFRS 16. The amendments exempt lessees from having to consider individual lease contracts to determine whether rent concessions (such as rent holidays and temporary rent reductions) occurring as a consequence of the COVID-19 pandemic are lease modifications. If use is made of the exemption, rent concessions are accounted for as if they were not a lease modification. The changes apply for rent concessions that reduce lease payments due on or before June 30, 2021. The amendments are effective for annual periods beginning on or after June 1, 2020.

On August 27, 2020, the IASB published Interest Rate Benchmark Reform—Phase 2: Amendments to IFRS 9, IAS 39 and IFRS 7. The amendments to the standards represent the outcome of the second phase and address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates.

The published amendments to IFRS 10 and IAS 28 address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. IFRS 10 requires the gain or loss on the sale of a subsidiary to be recognized in full in profit or loss on loss of control. Under IAS 28.28 as it currently stands, however, the gain or loss on sale transactions between an investor and a jointly controlled entity that is accounted for by the equity method – an associate or joint venture – is only recognized to the extent of the unrelated investors’ interests in the jointly controlled entity. In the future, the full amount of the gain or loss from a transaction may only be recognized if the sold or contributed assets constitute a business within the meaning of IFRS 3. This applies to both share and asset deals. If the assets do not constitute a business, recognition is limited to the extent of the unrelated interests.

Early application of these standards is permitted but not planned. Application of the new standards, interpretations and amendments will have not any material impact on the consolidated financial statements.

Notes to the consolidated statement of income

(6) Special items affecting the results

Comparability between the fiscal year 2020 results and the prior year is impacted by the following material one-off effects:

(€ thousand)	2020	2019
Material property disposal gains	-	42,801
Restructuring expenses		
– Inventory write-offs with regards to inventory	**– 4,535**	-
– Personnel expenses	– 46,718	– 23,986
– Other restructuring expenses	– 7,307	– 3,463
EBITDA impact	**– 58,560**	**15,352**
Restructuring related asset impairments	– 12,648	– 2,600
EBT impact	**– 71,208**	**12,752**

2020

Restructuring expenses under the Surtsey project

The Surtsey project, which was launched during the reporting period, aims to leverage the opportunities presented by the COVID-19 crisis to accelerate the transformation of our business model and evolve as a platform company. Here, the focus is on the Kloeckner Assistant and XOM eProcurement applications that will become the heart of operations at Klöckner & Co, very largely automating the Group's existing sales and procurement processes.

The Surtsey project will also result in the closure of 19 smaller branches that have no prospects of achieving adequate profitability in the years ahead. Our goal is to sustainably improve our site network and enable our sales organization to concentrate on selling our products and attracting new customers. As a result of advancing digitalization and optimizing our site network, the workforce will be reduced by a total of more than 1,200 employees.

The implementation of the measures will continue into 2021, especially in France.

Asset impairments

In connection with the initiated site closures, impairment losses were recognized in the USA (€7 million), Germany (€3 million) and France (€3 million) on property, plant and equipment and right-of-use assets in accordance with IFRS 16. The impairment losses were recognized in the affected segments.

Accounting effects of the COVID-19 pandemic

With regard to effects of the COVID-19 pandemic, please see the information in Notes 5 (Significant accounting policies), 15 (Intangible assets and property, plant and equipment) and 30 (Financial risk management) and in addition the commentary on the results of operations, financial position and net assets.

2019

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

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

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

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

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

(7) Sales

Accounting policies

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

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

Warehouse sales generally consist of selling material, with little or no processing, to customers out of a warehouse and deliveries in consignment stock on customer premises. Revenue from such transactions is recognized on delivery or collection of the goods.

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

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

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

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

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

2020 (*€ thousand*)	Kloeckner Metals US	Kloeckner Metals Switzerland	Kloeckner Metals Services Europe	Kloeckner Metals Distribution Europe	Holding and other Group Companies	Total
Germany	46	5,763	476,851	654,382	122	1,137,164
EU excluding Germany	4,705	3,383	122,178	823,825	-	954,091
Switzerland	-	891,823	3,782	1,611	-	897,216
Rest of Europe	-	12,639	628	7,066	-	20,333
USA	2,011,859	226	338	1,146	-	2,013,569
Rest of North America	2,500	-	37	299	-	2,836
Central and South America	57,011	181	2,947	11,407	-	71,546
Asia/ Australia	15	97	114	13,312	-	13,538
Africa	-	-	140	19,673	-	19,813
Sales	**2,076,136**	**914,112**	**607,015**	**1,532,721**	**122**	**5,130,106**

2019 (*€ thousand*)	Kloeckner Metals US	Kloeckner Metals Switzerland	Kloeckner Metals Services Europe	Kloeckner Metals Distribution Europe	Holding and other Group Companies	Total
Germany	33	5,652	578,362	853,285	2,582	1,439,914
EU excluding Germany	3,523	2,806	161,606	1,028,680	– 325	1,196,290
Switzerland	-	951,897	6,229	1,979	– 153	959,952
Rest of Europe	-	10,224	408	9,187	– 1,811	18,008
USA	2,558,610	-	-	2,503	-	2,561,113
Rest of North America	2,010	-	-	324	-	2,334
Central and South America	94,300	358	2,240	3,766	-	100,664
Asia/ Australia	212	69	62	13,761	-	14,104
Africa	-	-	279	22,062	– 1	22,340
Sales	**2,658,688**	**971,006**	**749,186**	**1,935,547**	**292**	**6,314,719**

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

2020 (€ thousand)	Kloeckner Metals US	Kloeckner Metals Switzerland	Kloeckner Metals Services Europe	Kloeckner Metals Distribution Europe	Holding and other Group Companies	Total
Stockholding	889,318	209,939	-	1,105,416	122	2,204,795
Processing and Service Center	1,157,428	399,155	607,015	185,953	-	2,349,551
Direct business	29,390	23,423	-	149,159	-	201,972
Other contracts	-	281,595	-	92,193	-	373,788
External sales	**2,076,136**	**914,112**	**607,015**	**1,532,721**	**122**	**5,130,106**

2019 (€ thousand)	Kloeckner Metals US	Kloeckner Metals Switzerland	Kloeckner Metals Services Europe	Kloeckner Metals Distribution Europe	Holding and other Group Companies	Total
Stockholding	1,096,024	228,876	-	1,421,548	292	2,746,740
Processing and Service Center	1,526,164	398,086	749,186	198,737	-	2,872,173
Direct business	36,500	23,715	-	175,264	-	235,479
Other contracts	-	320,329	-	139,998	-	460,327
External sales	**2,658,688**	**971,006**	**749,186**	**1,935,547**	**292**	**6,314,719**

(8) Other operating income

(€ thousand)	2020	2019
Reversal of provisions	4,354	5,559
Foreign currency exchange gains	4,190	2,307
Gain on sale of land and buildings	1,782	47,881
Gain on sale of other non-current assets and assets held for sale	1,333	368
Income from written-off receivables	449	2,205
Indemnification payments received	219	3,012
Other income	8,996	14,954
Other operating income	**21,323**	**76,286**

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

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

(9) Cost of materials

(€ thousand)	2020	2019
Cost of materials, supplies and purchased merchandise	4,079,464	5,141,643
Cost of purchased services	4,340	5,348
Cost of materials	**4,083,804**	**5,146,991**

(10) Personnel expenses

(€ thousand)	2020	2019
Wages and salaries	441,606	468,515
Restructuring expenses	46,718	27,688
Social security contributions (including welfare benefits)	88,327	97,394
Retirement benefit cost	23,075	33,104
Personnel expenses	**599,726**	**626,701**

The decrease in wages and salaries, social security contributions and retirement benefit cost relative to the prior year is mainly due to the reduction in the workforce. The restructuring expenses relate to severance and redundancy payments. Further information is included in Note 6 (Special items affecting the results).

The average number of employees in the Klöckner & Co Group pursuant to Section 314 (1) 4 of the German Commercial Code (HGB) was as follows in the reporting year:

	2020	2019
Salaried employees	4,381	4,310
Wage earners	3,173	3,856
Apprentices	220	237
Employees	**7,774**	**8,403**

(11) Other operating expenses

(€ thousand)	2020	2019
Forwarding cost	129,373	152,252
Third-party services	92,071	96,326
Repairs, maintenance and other expenses for plant and buildings	56,680	61,232
Supplies	41,811	49,100
Other taxes	18,465	19,600
Audit fees and consulting	12,601	15,662
Other insurance	8,692	9,066
Travel expenses	7,800	14,580
Postal charges and telecommunication	7,561	7,494
Restructuring expenses	7,307	3,463
Advertising and representation expenses	4,471	6,217
Foreign currency exchange losses	4,047	1,445
Bad debt expenses	2,304	3,530
Credit insurance	1,934	2,621
Other expenses	23,295	26,783
Other operating expenses	**418,412**	**469,371**

The restructuring expenses include closure costs for sites in the USA, Germany, France and the Netherlands as part of the Surtsey project (2019: closure costs for sites in Germany, the United Kingdom and France). Further information is included in Note 6 (Special items affecting the results).

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

(12) Financial result

Accounting policies

Interest income is recognized pro rata temporis based on the outstanding principal amount and the applicable interest rate using the effective interest method. Dividends are recognized when the right to receive payment is legally established.

(€ thousand)	2020	2019
Other interest and similar income	803	848
Interest and similar expenses	– 23,819	– 31,709
Interest cost for leases	– 4,625	– 5,002
Interest cost for post–employment benefits	– 2,842	– 4,895
Financial result	**– 30,483**	**– 40,758**

The financial result includes net interest expense of €23,115 thousand (2019: €31,052 thousand) measured and recognized using the effective interest rate method.

(13) Income taxes

Accounting policies

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

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

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

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

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

The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Klöckner & Co Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and deferred tax liabilities are offset if there is a legally enforceable right to set off and they relate to income taxes levied by the same taxation authority and current tax assets and tax liabilities are intended to be settled on a net basis.

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

Income taxes in the income statement
Income tax income/expense for the Klöckner & Co Group is as follows:

(€ thousand)	2020	2019
Current income tax expense (+)/benefit (–)	**– 5,042**	**13,712**
thereof related to prior periods	*– 13,521*	*– 225*
thereof related to current period	*8,479*	*13,937*
Domestic	– 206	– 69
Foreign	– 4,836	13,781
Deferred tax expense (+)/benefit (–)	**– 4,420**	**2,136**
thereof related to temporary differences	*– 2,964*	*– 3,749*
thereof related to loss carry forwards	*– 1,456*	*– 6,772*
thereof related to tax rate changes	-	*– 2,671*
thereof related to write-downs	-	*15,328*
Domestic	– 265	15,308
Foreign	– 4,155	– 13,172
Income tax expense (+)/benefit (–)	**– 9,462**	**15,848**

The combined income tax rate is 31.8% (2019: 31.8%), comprising corporate income tax (including solidarity surcharge) of 15.8% and trade tax for Klöckner & Co of 16.0%. Foreign tax rates vary between 10.0% and 34.0%.

The income tax item shows current tax income of negative €5,042 thousand in the reporting year (2019: current tax expense of €13,712 thousand). It should be noted, however, that cross-border offsetting of tax profits and tax losses is not permitted. In particular, tax losses in individual European countries cannot be offset against tax profits in other European countries.

The Group operates in numerous different countries. Its income is therefore subject to various tax jurisdictions. Tax receivables, tax liabilities, temporary differences, tax loss carryforwards and the resulting deferred taxes must be determined separately for each taxable entity. Management is required to make estimates in calculating current and deferred taxes. Deferred tax assets can only be recognized to the extent that their realization is probable. The realization of deferred taxes notably depends on sufficient taxable income being available for the type of tax and tax jurisdiction concerned. Various factors must be taken into consideration when gauging the probability of the future flow of economic benefits, such as historical earnings, budgets, loss carryforward restrictions and tax planning strategies. The recognition of deferred taxes is assessed once again at each reporting date.

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

Information on the stated estimates, assumptions and judgments must be provided in the notes. In addition, information on the potential effects of the uncertainty must be disclosed as a tax-related contingent liability in accordance with IAS 12.88.

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

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

(€ thousand)	2020	2019
Expected tax rate	**31.8%**	**31.8%**
Income before taxes	**– 123,825**	**– 39,028**
Expected tax expense/benefit at domestic tax rate	– 39,376	– 12,410
Foreign tax rate differential	1,369	– 3,408
Tax rate changes	– 1,572	– 2,721
Tax reduction due to tax free income	– 245	– 194
Tax increase due to non–deductible expenses	3,581	6,509
Current income tax levied or refunded for prior periods	– 1,674	– 225
Tax reduction due to a valuation allowance of deferred tax assets on temporary differences and on loss carryforwards	-	15,328
Tax benefit resulting from previously unrecognized deferred tax assets on loss carryforwards and on temporary differences	– 5,136	– 2,554
Tax increase due to non–capitalization of deferred tax assets on loss carryforwards and deductible temporary differences including valuation allowances	33,278	12,875
Other income taxes	653	2,050
Other tax effects	– 340	598
Effective income tax benefit/expense	**– 9,462**	**15,848**
Effective tax rate	**7.6%**	**– 40.6%**

The actual tax rate of 7.6% in the fiscal year under review is below the expected combined income tax rate of 31.8%. This mainly relates to higher tax due to non-recognition of deferred tax assets on tax losses and the tax loss history in France, in Germany and in the German start-up XOM Materials GmbH (€35,325 thousand in total) and non-deductible expenses, primarily in the United Kingdom and Germany.

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

Taxes recognized directly in other comprehensive income

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

(€ thousand)	December 31, 2020	December 31, 2019
Change in deferred tax assets and liabilities (net), not affecting net income	**– 3,788**	**– 5,120**
thereof reported		
– in other comprehensive income	*– 3,788*	*– 5,120*

Deferred taxes on adjustments of pension provisions in other comprehensive income in accordance with IAS 19, net investment hedges and changes in the fair values of derivative financial instruments designated in hedge accounting are reported in other comprehensive income.

The deferred tax assets relating to items accounted for in equity totaled €7,094 thousand at the end of the reporting year (2019: €10,882 thousand). In the reporting year, these relate in their entirety to pension obligations.

Deferred tax assets and liabilities

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

(€ thousand)	As of January 1, 2020 Net balance	Recognized in profit and loss	Recognized in OCI
From temporary differences and consolidations	*– 44,448*	*2,964*	*– 3,814*
Intangible assets	– 6,639	– 799	– 20
Property, plant and equipment	– 39,915	6,753	– 119
Non-current investments	– 2,573	4,485	– 8
Inventories	– 10,251	458	– 30
Receivables	– 2,311	4,412	– 7
Other current assets	– 3,780	3,782	– 11
Provisions for pensions and similar obligations	19,939	– 6,187	– 3,622
Other provisions and accrued liabilities	843	1,802	3
Financial liabilities	467	– 8,833	1
Other liabilities	– 229	– 2,909	– 1
Tax loss carryforwards/interest carryforwards	*8,820*	*1,456*	*26*
Deferred tax assets/liabilities (before offsetting)	**– 35,629**	**4,420**	**– 3,788**
Offsetting	-		
Deferred tax assets/liabilities	**– 35,629**		

(€ thousand)	As of January 1, 2019 Net balance	Recognized in profit and loss	Recognized in OCI
From temporary differences and consolidations	*– 41,085*	*2,292*	*– 5,658*
Intangible assets	– 4,465	– 1,985	– 189
Property, plant and equipment	– 42,938	4,839	– 1,816
Non-current investments	4,128	– 6,876	175
Inventories	– 9,694	– 147	– 410
Receivables	– 5,622	3,549	– 238
Other current assets	2,561	– 6,449	108
Provisions for pensions and similar obligations	32,112	– 9,611	– 2,562
Other provisions and accrued liabilities	569	250	24
Financial liabilities	– 2,854	3,441	– 121
Other liabilities	– 14,883	15,282	– 629
Tax loss carryforwards/interest carryforwards	*12,710*	*– 4,428*	*538*
Deferred tax assets/liabilities (before offsetting)	**– 28,375**	**– 2,136**	**– 5,120**
Offsetting	-		
Deferred tax assets/liabilities	**– 28,375**		

			As of December 31, 2020		
Recognized directly in equity	Acquired in business combinations	Other (e.g. non-current assets held for sale and discontinued operations)	Net balance	Deferred tax assets	Deferred tax liabilities
-	-	-	*– 45,299*	*38,599*	*– 83,898*
-	-	-	– 7,411	227	– 7,638
-	-	-	– 37,251	89	– 37,340
-	-	-	1,885	1,885	-
-	-	-	– 9,459	1,221	– 10,680
-	-	-	– 1,055	999	– 2,054
-	-	-	– 1,111	7,374	– 8,485
-	-	-	14,814	21,872	– 7,058
-	-	-	– 512	3,552	– 4,064
-	-	-	460	460	-
-	-	-	– 5,659	920	– 6,579
-	-	-	*10,302*	*10,302*	-
-	**-**	**-**	**– 34,997**	**48,901**	**– 83,898**
			-	– 40,577	40,577
			– 34,997	**8,324**	**– 43,321**

			As of December 31, 2019		
Recognized directly in equity	Aquired in business combinations	Other (e.g. non-current assets held for sale and discontinued operations)	Net balance	Deferred tax assets	Deferred tax liabilities
-	-	-	*– 44,449*	*55,553*	*– 100,002*
-	-	-	– 6,639	973	– 7,612
-	-	-	– 39,915	1,099	– 41,014
-	-	-	– 2,573	3,259	– 5,832
-	-	-	– 10,251	1,312	– 11,563
-	-	-	– 2,311	3,123	– 5,434
-	-	-	– 3,780	3,389	– 7,169
-	-	-	19,939	27,943	– 8,003
-	-	-	843	6,667	– 5,824
-	-	-	467	1,263	– 796
-	-	-	– 229	6,525	– 6,755
-	-	-	*8,820*	*8,820*	-
-	**-**	**-**	**– 35,629**	**64,373**	**– 100,002**
			-	– 57,839	57,839
			– 35,629	**6,534**	**– 42,163**

In accordance with IAS 12.39, no deferred tax liabilities were recognized for taxable temporary differences associated with investments in subsidiaries (outside basis differences) in the amount of €7.9 million (2019: €6.2 million). The amount of the related deferred tax liabilities is €2.5 million (2019: €1.9 million).

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

(€ million)	December 31, 2020	December 31, 2019
Unrecognized tax losses		
– Corporate income tax	773	676
– Trade tax and similar taxes	304	284
– Interest carry forward	-	6
Temporary differences	54	78

The majority of the unrecognized tax loss carryforwards are not subject to a maximum carryforward period under prevailing law and therefore do not expire unless specific circumstances arise (such as change of control). The unrecognized tax loss carryforwards that are subject to a maximum carryforward period expire as follows:

(€ million)	December 31, 2020	December 31, 2019
until December 31, 2021	-	-
until December 31, 2031	59	89
after December 31, 2031	132	98

Temporary differences are deductible indefinitely.

(14) Earnings per share

Accounting policies

Basic earnings per share are calculated by dividing consolidated net income for the year attributable to shareholders of Klöckner & Co SE by the average number of shares outstanding during the period. Potential shares from convertible bonds are treated as dilutive when, and only when, their conversion to shares would decrease earnings per share or increase loss per share.

In accordance with IAS 33.41, 10,861 thousand (2019: 10,861 thousand) potential dilutive shares under the convertible bond issues were not included in the computation of diluted earnings per share for fiscal year 2020 as this would have resulted in improved earnings per share.

		2020	2019
Net income attributable to shareholders of Klöckner & Co SE	(€ thousand)	– 115,927	– 56,158
Weighted average number of shares	(thousands of shares)	99,750	99,750
Basic earnings per share	**(€/share)**	**– 1.16**	**– 0.56**
Diluted earnings per share	**(€/share)**	**– 1.16**	**– 0.56**

Notes to the consolidated statement of financial position

(15) Intangible assets and property, plant and equipment

a) Intangible assets

Accounting policies

Intangible assets with finite useful lives are carried at cost less accumulated amortization and any accumulated impairment losses if economic benefits are expected from the asset and the cost of the asset can be measured reliably.

Intangible assets are amortized on a straight-line basis over their expected useful life. Intangible assets recognized in business combinations for customer relationships are amortized based on the expected churn rate.

The expected useful lives are as follows:

	Useful life in years
Software	2–5
Customer relations	4–15
Trade names	3–15
Other intangible assets	1–15

The useful life is reviewed annually and changed as necessary in accordance with future expectations. Intangible assets with an indefinite useful life – in the Klöckner & Co Group solely goodwill – are reviewed for impairment annually and whenever there is an indication that they may be impaired.

(€ thousand)	Intangible assets (without Software/ Goodwill)	Software	Goodwill	Total intangible assets
Cost as of January 1, 2019	424,171	103,916	319,975	848,062
Accumulated amortization and impairments	– 324,249	– 85,644	– 290,224	– 700,117
Balance as of January 1, 2019	**99,922**	**18,272**	**29,751**	**147,945**
Exchange rate differences	2,105	243	928	3,276
Additions	3,530	3,981	-	7,511
Disposals	– 102	– 37	-	– 139
Impairments	-	– 6	-	– 6
Depreciation and amortization	– 17,970	– 10,110	-	– 28,080
Transfers	– 582	582	-	-
Balance as of December 31, 2019	**86,903**	**12,925**	**30,679**	**130,507**
Cost as of December 31, 2019	432,647	108,752	320,486	861,885
Accumulated amortization and impairments	– 345,744	– 95,827	– 289,807	– 731,378
Balance as of January 1, 2020	**86,903**	**12,925**	**30,679**	**130,507**
Exchange rate differences	– 4,605	– 7	121	– 4,491
Additions	6,205	3,100	-	9,305
Disposals	-	– 2	-	– 2
Impairments	-	– 1	-	– 1
Depreciation and amortization	– 17,605	– 8,697	-	– 26,302
Transfers	– 3,416	3,485	-	69
Balance as of December 31, 2020	**67,482**	**10,803**	**30,800**	**109,085**
Cost as of December 31, 2020	402,035	111,320	290,853	804,208
Accumulated amortization and impairments	– 334,553	– 100,517	– 260,053	– 695,123

Intangible assets include €9 million (2019: €9 million) for self-developed software at kloeckner.i GmbH and XOM Materials GmbH. Research and development expenses came to €6 million (2019: €3 million).

Goodwill impairment testing in accordance with IAS 36

The annual impairment testing of cash-generating units (CGUs) to which goodwill has been allocated, as required by IAS 36 (Impairment of Assets), is carried out on the basis of the business plan approved by the respective committees in the fourth quarter.

The recoverable amount of a CGU is calculated as value in use using a discounted cash flow method, which is based on bottom-up planning. Planning generally covers a three-year period. The expected future cash flow also takes the cyclical nature of the business model into account by averaging over the detailed planning period. Klöckner & Co utilizes a uniform planning model for all CGUs.

The projected cash inflows largely depend on expected shipments and future gross profit per ton. This is prognosticated on the basis of normalized gross profit. Shipments are estimated taking into account macroeconomic and industry-specific trends.

Other major factors affecting the sustainable level of future cash inflows comprise the expected development of operating expenses (OPEX) and the determination of discount rates, including the future growth rate assumed in perpetuity. OPEX is determined on the basis of individual business budgeting and on assessment of macroeconomic developments (such as adjustments for inflation).

In impairment testing, we took account of the market changes caused by COVID-19 on the basis of available data and management estimates as well as the measures already initiated as part of the Surtsey project in calculating the value in use.

The discount rates are based on the Capital Asset Pricing Model (CAPM). Its main inputs are the risk-free rate of return, the beta factor of the Klöckner & Co share, assumptions about credit risk and the market risk premium for return on equity. Impacts of the COVID-19 pandemic in terms of forecasting reliability were taken into account using markups in the cost of capital.

Growth rates of 0.45% (Switzerland CGU) and 0.90% (BSS CGU) were used in determining the expected future cash flows.

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

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

Impairment testing of goodwill allocated to the CGUs
The carrying amounts of goodwill totaled €31 million and relate to the Switzerland CGU (€26 million) and Becker Stahl-Service GmbH (€5 million). The impairment test confirmed that the goodwill is not impaired.

On account of current forecasting uncertainties due to the COVID-19 pandemic, the cash flow projections used in the impairment test do not assume a full market recovery.

The following table shows, for the key assumptions used in determining the terminal value in the impairment test, the percentage change at which the CGU's recoverable amount equals its carrying amount:

CGU	Shipments	Gross profit per ton	OPEX	WACC
Switzerland	– 2%	– 1%	+1%	+0.2%p
Becker Stahl-Service GmbH (BSS)	– 8%	– 3%	+4%	+0.6%p

Value in use was measured for the Switzerland CGU on the basis of a pretax WACC of 6.3% (2019: 6.0%) and for the Becker Stahl-Service CGU on the basis of a pretax WACC of 9.2% (2019: 8.5%).

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

Of the carrying amount of other intangible assets (excluding software/goodwill) of €67 million, €47 million relate to intangible assets (mainly customer relationships) from business combinations in the USA amortized on a straight-line basis over their expected useful life.

Klöckner & Co SE's market capitalization was less than the book value of equity as of December 31, 2020. There was thus a triggering event within the meaning of IAS 36.12 (d) that may be an indication of impairment. The impairment test carried out in consequence confirmed that intangible assets were not impaired.

b) Property, plant and equipment

Accounting policies
Property, plant and equipment is carried at cost less accumulated depreciation and impairments. The cost of self-constructed assets comprises all direct costs and attributable overheads. Administrative costs are only included in the cost of an asset to the extent that they relate to its construction. Property, plant and equipment subject to depreciation is normally depreciated on a straight-line basis. Maintenance and repair costs are expensed as incurred.

Depreciation is based on the following useful lives:

	Useful life in years
Office building, factory and warehouse buildings	10–50
Plant facilities similar to buildings	8–33
Warehouse and crane equipment and other technical equipment	2–20
Operating and office equipment	1–15

(€ thousand)	Land, similar land rights and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Payments on account and con-struction in progress	Total property, plant and equipment
Cost as of January 1, 2019	769,393	414,135	335,015	27,709	1,546,252
Accumulated amortization and impairments	– 385,031	–265,304	–257,003	-	–907,338
Balance as of January 1, 2019	**384,362**	**148,831**	**78,012**	**27,709**	**638,914**
Recognition of right of use from the first-time application of IFRS 16	137,207	5,733	56,059	-	198,999
Adjusted balance as of January 1, 2019	**521,569**	**154,564**	**134,071**	**27,709**	**837,913**
Exchange rate differences	11,069	2,569	2,836	539	17,013
Additions	7,996	10,128	27,811	17,688	63,623
Disposals	– 5,932	– 763	– 780	-	– 7,475
Impairments	– 3,011	– 329	– 765	-	– 4,105
Depreciation and amortization	– 39,074	– 25,869	– 40,165	-	– 105,108
Transfers	1,937	16,060	9,446	– 27,443	-
Balance as of December 31, 2019	**494,554**	**156,360**	**132,454**	**18,493**	**801,861**
Cost as of December 31, 2019	911,619	433,862	401,625	18,493	1,765,599
Accumulated amortization and impairments	– 417,065	– 277,502	– 269,171	-	– 963,738
Balance as of January 1, 2020	**494,554**	**156,360**	**132,454**	**18,493**	**801,861**
Exchange rate differences	– 10,474	– 6,371	– 3,117	– 783	– 20,745
Additions	22,789	13,189	26,805	35,147	97,930
Disposals	– 4,383	– 1,252	– 711	-	– 6,346
Impairments	– 6,564	– 3,174	– 4,285	-	– 14,023
Depreciation and amortization	– 38,523	– 27,760	– 39,171	-	– 105,454
Transfers	3,454	10,202	3,365	– 17,090	– 69
Reclassification to assets held for sale	– 8,050	– 365	– 969	-	– 9,384
Balance as of December 31, 2020	**452,803**	**140,829**	**114,371**	**35,767**	**743,770**
Cost as of December 31, 2020	889,439	429,114	390,554	35,767	1,744,874
Accumulated amortization and impairments	– 436,636	– 288,285	– 276,183	-	– 1,001,104

Property, plant and equipment includes right-of-use assets (IFRS 16) in the amount of €170,005 thousand (2019: €198,431 thousand).

Property, plant and equipment with a carrying amount of €53,515 thousand (2019: €56,999 thousand) was pledged as security in the form of liens for financial liabilities.

Impairment testing of other non-current assets
If there are indications of impairment for CGUs to which no goodwill has been allocated, the recoverable amount is measured at the level of each CGU.

Also as a result of the decline in shipments associated with the COVID-19 pandemic, European steel distribution activities continued to fall short of profitability targets in the United Kingdom and to generate further losses in France due to lower demand after streamlining of the dealer network. This is equally true for our distribution activities in Germany and the Netherlands.

In addition to the external triggering event, there is thus an internal indication that assets in the consolidated financial statements may be impaired. The values in use measured for the remaining CGUs exceeded their respective carrying amounts.

The carrying amounts of the tested non-current assets of the CGUs in question before impairment testing were as follows as of December 31, 2020:

(€ thousand)	Germany	United Kingdom	France	The Netherlands
Other intangible assets	97	72	176	34
Land and buildings	14,183	13,681	20,439	13,205
Technical equipment and machinery	13,524	5,706	6,299	2,302
Other equipment, operating and office equipment	9,761	3,568	1,167	2,389
Payments on account	1,074	16,212	2,343	370
Right-of-use assets	16,257	17,471	32,611	1,030
	54,895	**56,710**	**63,035**	**19,329**

Germany, Netherlands, United Kingdom and France CGUs

Impairment testing showed that the values in use of these CGUs were materially less than their carrying amounts, hence the recoverable amount cannot be determined from the cash flows from continuing use. A determination of the recoverable amount using fair value less costs of disposal of these CGUs was not performed due to a lack of market information.

Any impairment must be allocated in a second step to the assets in the CGUs (IAS 36.104). In allocating the impairment loss, the carrying amount of an asset may not be reduced below its fair value less costs of disposal or its value in use (IAS 36.105). The fair values of the individual assets were therefore determined.

In determining the fair values of land assets, we relied on outside appraisals and external sources on land values. Any appraisals from prior periods were updated in line with observed market changes. The appraisals are based on the sales comparison approach where pertinent data is available and otherwise on the replacement value approach.

For plant and equipment as well as for operating and office equipment, fair values were determined with the assistance of outside experts. The fair values were determined on the basis of an indexed replacement value approach. The price indices were obtained from the Statistical Office of the European Union (EUROSTAT) and the Genesis-Online database provided by the German Federal Statistical Office (DESTATIS). Obsolescence risk was accounted for by reductions of 5% to 10% for functional and of 5% to 30% for economic obsolescence. The assumed economic useful lives are based on a 2010 study by the ASA Machinery & Technical Specialties Committee.

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

The fair values thus determined mainly exceed the carrying amounts of the assets of each CGU. Only €1 million in impairment losses were identified and recognized. However, as the result of site closures in the context of the Surtsey project, impairments of €6 million were recognized on non-current assets to the full extent of the carrying amount in Germany, the United Kingdom and France and reported in the Kloeckner Metals Distribution segment. Of this amount, €3 million relates to right-of-use assets, €1 million to machinery and equipment and €2 million to other equipment, factory and office equipment.

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

The values in use measured for the US CGU exceeded the corresponding carrying amounts. Consequently, there were no internal indications of impairment in principle. Nevertheless, within the context of the Surtsey project, impairments of €7 million had to be recognized for Kloeckner Metals US in respect of the discontinued activities at one major facility and one site because the carrying amounts exceeded the fair values.

c) Leases

Accounting policies

THE GROUP AS LESSOR

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

THE GROUP AS LESSEE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Right-of-use assets

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

(€ thousand)	Land and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Total
January 1, 2019	**150,191**	**10,172**	**63,299**	**223,662**
Depreciation	– 23,644	– 2,298	– 22,658	– 48,600
Impairments	– 2,472	– 141	-	– 2,613
Additions right-of-use	4,423	430	17,217	22,070
Disposals right-of-use	-	-	– 99	– 99
Foreign currency adjustment	2,659	102	1,250	4,011
December 31, 2019	**131,157**	**8,265**	**59,009**	**198,431**
January 1, 2020	**131,157**	**8,265**	**59,009**	**198,431**
Depreciation	– 22,260	– 2,093	– 21,510	– 45,863
Impairments	– 1,611	– 237	– 1,323	– 3,171
Additions right-of-use	16,625	471	14,082	31,178
Disposals right-of-use	– 3,740	-	– 720	– 4,460
Foreign currency adjustment	– 4,409	– 142	– 1,559	– 6,110
December 31, 2020	**115,762**	**6,264**	**47,979**	**170,005**

Amounts recognized in profit or loss

(€ thousand)	2020	2019
Interest expense for leasing agreements	4,625	5,002
Expenses for short term leases	9,799	8,709
Expenses for leases of an asset of minor value	499	1,936
Income from subleases	– 13	– 17

Amounts recognized in the statement of cash flows

Cash outflows for leases totaled €60,945 thousand (2019: €60,759 thousand). If all options to extend or terminate not accounted for in the lease liability are exercised, additional payments of €40,443 thousand will be incurred.

Extension options

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

Klöckner & Co estimates that the potential future lease payments if extension options are exercised would result in a lease liability of €32,627 thousand.

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

(16) Inventories

Accounting policies
Inventories are measured at the lower of cost and net realizable value. Determining net realizable value requires management to estimate sales prices and costs until sale.

Costs of conversion include costs directly related to the units of production, based on normal capacity. As well as directly attributable costs, costs of conversion also include a systematic allocation of indirect materials and indirect labor, including production-related depreciation (e.g. for certain coil inventories). Measurement is normally on a monthly moving average basis. In certain cases, cost is assigned by specific identification of individual costs.

(€ thousand)	December 31, 2020	December 31, 2019
Raw materials and supplies	243,350	318,373
Work in progress	9,624	4,623
Finished goods and merchandise	602,617	719,655
Inventories	**855,591**	**1,042,651**

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

Of the inventories as of December 31, 2020, €244,179 thousand (2019: €263,498 thousand) are carried at net realizable value. Write-downs to net realizable value were recognized as expense in the amount of €27,685 thousand (2019: €32,038 thousand). The change in (reversal of) write-downs recognized through profit or loss in the fiscal year totaled €3,959 thousand (2019: additions of €2,790 thousand). The amount recognized as expense for inventories corresponds to the cost of materials, supplies and purchased merchandise.

In addition to reservations of title in the ordinary course of business, inventories with a carrying amount of €293,103 thousand (2019: €417,543 thousand) are pledged as security for financial liabilities. As of December 31, 2020, drawings on the corresponding credit lines amounted to €52,970 thousand (2019: €137 thousand) under the new ABL program in the USA.

(17) Trade receivables and contract assets

a) Trade receivables

Trade receivables are normally invoiced in the local currency of the relevant subsidiary; foreign currency export receivables are generally hedged.

The Klöckner & Co Group sells trade receivables as a rule under an ABS program. The trade receivables are sold by participating Klöckner & Co companies to a special-purpose entity (SPE).

The refinancing of the purchased receivables by the SPE is therefore reported in the consolidated financial statements as loans from the bank conduits financing them.

The carrying amount of the receivables of the companies participating in the European ABS program as of December 31, 2020 is €192 million (2019: €454 million). The prior-year figure includes €228 million in receivables under the US ABS program.

For further information on the ABS program, see Note 25 (Financial liabilities) and Note 3 (Basis of consolidation and consolidation methods).

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

TRADE RECEIVABLES AND CONTRACT ASSETS

(€ thousand)		Of which overdue by days as of the reporting date *)						
Gross trade receivables	Of which not overdue as of the reporting date	1–30 days	31–60 days	61–90 days	91–120 days	> 120 days	Write-downs	Carrying amount
December 31, 2020								
557,013	455,666	73,586	12,720	4,557	1,754	8,730	– 13,687	543,326
December 31, 2019								
626,660	484,769	108,020	16,815	5,092	1,789	10,175	– 15,228	611,432

*) Including contract assets: €25,954 thousand (2019: €31,607 thousand).

As of December 31, 2020, trade receivables of companies not participating in the ABS program were pledged in the amount of €200,736 thousand (2019: €2,537 thousand) as collateral for loan liabilities.

b) Contract assets

Contract assets changed as follows in fiscal year 2020:

(€ thousand)	2020	2019
Contract assets as of January 1	31,607	23,453
Additions/ Disposals	– 4,205	8,399
Exchange rate differences	– 1,448	– 245
Contract assets as of December 31	**25,954**	**31,607**

c) Bonus claims to suppliers

Supplier bonus receivables are determined on the basis of contractual agreements and accepted shipments.

(18) Other financial and non-financial assets

	December 31, 2020		December 31, 2019	
(€ thousand)	Current	Non-current	Current	Non-current
Other financial assets	**14,876**	**19,448**	**11,935**	**14,987**
Investments	-	14,177	-	8,572
Non-current loans and securities	-	260	-	259
Receivables from insurance companies	89	4	196	1,215
Fair value of derivative financial instruments	3,235	-	1,622	-
Vendors with debit balance	5,248	-	4,806	-
Miscellaneous other non-financial assets	6,304	5,007	5,311	4,941
Other non-financial assets	**23,542**	**49,348**	**25,730**	**9,523**
Receivables from social security carriers	317	-	385	-
Reinsurance claims from pension obligations	-	3,805	-	3,860
Prepaid pension cost	-	45,537	-	5,638
Claims of other taxes	9,612	-	13,625	-
Prepaid expenses	11,475	6	9,302	25
Advance payments	2,138	-	2,418	-
Other assets	**38,418**	**68,796**	**37,665**	**24,510**

(19) Cash and cash equivalents

Cash and cash equivalents mainly comprise bank balances and short-term deposits. There were no restrictions as of the reporting date.

(20) Non-current assets held for sale

Accounting policies
Non-current assets or groups of assets that are disposed of in a single transaction (disposal groups), including the associated liabilities, are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Depreciation and amortization are no longer recognized on non-current assets held for sale. They are carried at the lower of carrying amount and fair value less costs of disposal.

Of the non-current assets held for sale, €4 million relate to properties in the Kloeckner Metals Distribution segment and €5 million to properties, technical equipment and machinery in the Kloeckner Metals US segment.

(in € thousand)	December 31, 2020
Land and buildings	7,702
Technical equipment and machinery	340
Other non-current assets	969
Net assets	**9,011**

(21) Equity and non-controlling interests

a) Subscribed capital

The subscribed capital of Klöckner & Co SE is €249,375,000, as in the prior year, and is divided into 99,750,000 no-par-value shares, each notionally corresponding to €2.50 of the share capital.

Acquisition of treasury stock
By Annual General Meeting resolution of May 12, 2017, the Management Board is authorized to acquire, by or before May 11, 2022, treasury stock of up to 10% of the Company's share capital in issue at the time of adoption of the resolution by the Annual General Meeting on May 12, 2017 or, if lower, the Company's share capital in issue at the time of exercise of the authorization. The Management Board was additionally authorized to acquire treasury stock using derivatives (put options, call options or forward contracts). The authorization may be utilized in whole or in part, on one or more occasions, by the Company, by Group companies or by third parties acting on the Company's account or on the account of Group companies. The authorization may be used for any legally permissible purpose. Trading with treasury stock is prohibited. No use has been made of the authorization so far.

Conditional capital

CONDITIONAL CAPITAL 2013

At the Annual General Meeting of May 12, 2017, the Conditional Capital 2013 was adjusted such that the Company's share capital is subject to a smaller conditional increase of up to €24,932,500 by the issue of up to 9,973,000 new no-par-value registered shares. The new no-par-value registered shares issued under the contingent capital increase will each have dividend rights from the beginning of the fiscal year in which they are issued. Section 4 (6) sentence 1 of the Articles of Association was reworded accordingly.

CONDITIONAL CAPITAL 2017

By resolution of the Annual General Meeting of May 12, 2017, the share capital was conditionally increased by up to €49,875,000 by the issue of up to 19,950,000 new no-par-value registered shares (Conditional Capital 2017). The new no-par-value registered shares issued under the contingent capital increase will each have dividend rights from the beginning of the fiscal year in which they are issued. The Conditional Capital 2017 serves to grant subscription and/or conversion rights and/or obligations to the holders of warrant-linked and/or convertible bonds that are issued by the Company or a Group company in accordance with the authorization under agenda item 7 of the Annual General Meeting of May 12, 2017. Furthermore, it serves the purpose of issuing shares to creditors of convertible bonds issued based on the resolution under agenda item 6 of the Company's Annual General Meeting of May 24, 2013 in case of an adjustment of the conversion ratio. The corresponding provision of the Articles of Association is Section 4 (7).

Authorized capital

AUTHORIZED CAPITAL 2017

By resolution of the Annual General Meeting on May 12, 2017, the Management Board was authorized until May 11, 2022 to increase the share capital on one or more occasions by a total of €124,687,500 against cash or non-cash contributions by the issue of 49,875,000 no-par-value registered shares. The corresponding provision of the Articles of Association is Section 4 (3) (Authorized Capital 2017).

b) Capital reserves

After the withdrawal to cover the loss, capital reserves as of December 31, 2020 were €568,729 thousand (December 31, 2019: €575,060 thousand).

c) Retained earnings

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

d) Accumulated other comprehensive income

Accumulated other comprehensive income comprises translation differences from translation of the financial statements of foreign subsidiaries, changes in the fair value of cash flow hedges and changes in actuarial gains and losses on pension obligations under IAS 19, including related deferred taxes.

e) Non-controlling interests

Non-controlling interests represent third-party interests in consolidated subsidiaries.

f) Proposal for the appropriation of net income

Due to the net loss in the fiscal year under review, the Management Board and Supervisory Board will propose to the Annual General Meeting that no dividend be paid for fiscal year 2020.

(22) Share-based payments

Accounting policies
The share-based compensation plans in the Klöckner & Co Group are cash-settled virtual stock option (VSO) plans. A provision is recognized pro rata temporis in the amount of the fair value of the payment obligation as of each reporting date; any subsequent change in the fair value is recognized in profit or loss.

The fair value of the virtual stock options is measured for the determination of provisions using Monte Carlo simulation with the following parameters:

in %	December 31, 2020	December 31, 2019
Risk-free rate of return	– 0,8 to – 0,7	– 0,7 to – 0,4
Expected volatility	50,7	49,3

The expected volatility is based on market-traded options on the shares.

The Klöckner & Co Group has operated cash-settled share-based payment programs since 2006. The beneficiaries are the Management Board and selected members of senior management throughout the Group. The Management Board program was discontinued effective December 31, 2015.

Management Board program (until 2015)
The members of the Management Board had an annual entitlement to virtual stock options (VSOs). The contracts provided for a cash payment to the beneficiary on exercise of the option. The strike price was based on the average price of Klöckner & Co shares over the last 30 stock market trading days of the year prior to issuance of the respective tranche. The cash payment amounted to the difference between the average share price (XETRA trading, Deutsche Börse AG, Frankfurt am Main) over the last 30 trading days prior to exercising the option and the strike price for the respective tranche. The settlement amount was capped at €25 per option after adjusting for dividend payments in the meantime and any dilutive effects of capital increases. The vesting period was three years from the allotment date for the first third of the tranche, four years for the second third and five years for the last third. The individual tranches were issued annually. The virtual stock options granted but not yet exercised expire at the latest in 2023.

Senior management programs
In the first half of the fiscal year, 574,000 (2019: 635,000) virtual stock options were allocated and issued to selected members of senior management. The conditions are largely identical to the Management Board program at Klöckner & Co SE. However, the vesting period is uniformly four years.

The total number of outstanding virtual stock options has changed as follows:

(Number of virtual stock options)	Management Board programs*)	Other executives	Total
Outstanding at the beginning of the year	**568,468**	**3,546,666**	**4,115,134**
Granted	-	574,000	574,000
Forfeited	– 80,000	– 72,000	– 152,000
Outstanding at the end of the reporting period	**488,468**	**4,048,666**	**4,537,134**
thereof exercisable at the reporting date	*488,468*	*2,164,499*	*2,652,967*
weighted average remaining contractual lifetime (months)	*25*	*40*	*39*
range of strike prices (€/VSO)	*7.53–8.97*	*6.02–10.53*	*6.02–10.53*
weighted average strike price (€/VSO)	*8.31*	*8.12*	*8.14*

*) Including options held by former members of the Management Board.

Detailed information for the members of the Management Board serving in fiscal year 2020 is provided in the following table:

(Number of virtual stock options)	Gisbert Rühl
Outstanding at the end of the reporting period	**241,800**
thereof exercisable at the reporting date	*241,800*
weighted average remaining contractual lifetime (months)	*36*
range of strike prices (€/VSO)	*7.53–8.97*
weighted average strike price (€/VSO)	*8.32*

No virtual stock options were exercised in fiscal year 2020 or 2019.

The provision recognized pro rata temporis for stock options granted to the Management Board and to senior management amounts as of the reporting date to €8,830 thousand (2019: €4,960 thousand); the intrinsic value of virtual stock options exercisable as of the reporting date was €628 thousand (2019: €0 thousand). The expense for additions to provisions amounted to €3,870 thousand (2019: €1,710 thousand).

(23) Provisions for pensions and similar obligations

Accounting policies
Pension obligations arising from defined benefit plans are determined using the projected unit credit method. The expected benefits, including dynamic components (e.g., pension and salary increases), are recognized over an employee's entire period of service. Actuarial advice is obtained.

Actuarial gains or losses resulting from differences between the expected and actual changes in plan participants and actuarial assumptions are recognized in other comprehensive income in the period in which they arise. They are presented separately in the statement of comprehensive income. The statement of financial position consequently shows the full scale of the obligation while avoiding earnings fluctuations in the income statement as a result of changes in measurement parameters.

Service cost is reported in personnel expenses. Interest expense from the unwinding of the discount on pension obligations and returns on plan assets are presented in the financial result as net interest expense at the rate used to discount the obligations.

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

Past service cost is recognized in profit or loss.

Employer contributions to defined contribution plans under which the Klöckner & Co Group pays set contributions into a separate entity under defined contribution plans and has no legal or constructive obligation to pay further contributions are expensed as incurred.

Most employees in the Klöckner & Co Group have pension benefits, with the type of provision varying from country to country according to the national legal, economic and tax situation. Pension plans in the Group include both defined contribution and defined benefit plans as follows:

Depending on their year of entry, employees in Germany either have a defined benefit entitlement equaling a percentage of eligible salary for each qualifying year of service or, for entrants after 1979, a fixed capital amount scaled by salary band for each qualifying year of service. There are also individual entitlements for executive staff in accordance with various Essener Verband benefit plans. Older entitlements among these are employer-funded entitlements to pension benefits, while the more recent pension plans are defined contribution plans in which employees are able to add employee-funded contributions. The more recent entitlements feature a choice between a lump sum payment and an annuity.

Defined benefit plans in France include a collectively negotiated IFC plan that provides for a lump sum payment according to length of service and salary. There is also a final salary plan, closed to new entrants since 1989, for employees taken over from a former state corporation (IRUS plan).

In the United Kingdom, post-2003 new entrants have a defined contribution plan with equal employer and employee contributions at a fixed percentage of basic salary. Pre-2003 entrants instead have defined benefit entitlements through two legally independent pension funds that pay a life annuity. Both plans pay final salary benefits dependent on length of service and are closed to service accruals after 2015 (moved to defined contribution plan). Governance of each plan is by a Board of Trustees. Both plans are required by law to fund the obligations with plan assets. There is an agreement with the Board of Trustees to make up any pension shortfall over the long term. The current investment strategy has a strong focus on corporate bonds and other fixed-income investments.

Swiss Group companies and their employees fund pensions through a pension fund with both employer and employees subject to contributions that rise with employee age. On retirement, the accumulated capital is converted into a life annuity using a conversion factor. The fund's internal governance is by a Board of Trustees (Stiftungsrat). As the pension fund is required under Swiss law to guarantee a minimum level of benefits on the capital paid in and, in the event of a pension shortfall, can impose restructuring measures that may be at the expense of the employer, the plan is accounted for as a defined benefit plan in accordance with IAS 19. The D&A Group pension fund, Pensionskasse der D&A-Gruppe, is a Swiss-law trust domiciled in St. Gallen, Switzerland. It has the purpose of providing old-age, survivors' and disability benefit plans for company employees. These plans are provided by the fund on a mandatory basis under the Swiss Occupational Pensions Act (BVG), for which purpose it is listed in the occupational benefit plans register. The Board of Trustees, as the main decision-making body under Article 29 of the fund's charter, comprises at least six members elected from among plan members. Among other tasks, the Board of Trustees administers the fund's assets. Management in turn produces a written annual report that must be made available to plan members in a suitable form.

In the USA, pension benefits are provided in the form of a defined contribution plan and several defined benefit plans. A 401 (k) plan gives employees the option to pay a set percentage of their basic salary into a fund, thus entitling them to a subsidy from the employer. Employees who joined the Company by December 31, 2013 participate in a defined benefit plan that provides a life annuity equaling a set percentage of eligible salary for each qualifying year of service, or a fixed amount for unionized employees. Alongside the aforesaid regular pension plans in the USA, there is also a retiree welfare plan, likewise closed to new entrants, with post-retirement healthcare benefits for former employees of an acquired company. In general, all of the above are funded plans. Under US law, employers must pay funding contributions to a plan if a special solvency assessment shows funding to fall short of 100%. The only exception is a plan for upper management, which is exclusively financed through provisions. The retiree welfare plan is also financed entirely out of provisions.

RISKS ASSOCIATED WITH DEFINED BENEFIT PLANS

The main risk other than normal actuarial risk – including longevity risk and foreign exchange risk – relates to financial risk associated with plan assets.

On the pension liability side, this mostly means inflation risk on plans with salary-linked benefits (notably final salary plans); a marked rise in pay would increase the obligation under these plans. Plans of this kind exist only on a small scale in the Klöckner & Co Group or are largely closed to new entrants.

Regarding increases to pensions currently in payment, there is, with one exception, no pension arrangement within the Klöckner & Co Group that carries an obligation to increase the benefit amount in excess of inflation or in excess of the surplus generated on plan assets. Only for a number of entitlements for executive staff in Germany is there a commitment to increase benefits by 1% a year from retirement regardless of actual inflation.

The return on plan assets in accordance with IAS 19 is assumed on the basis of the discount rate for the defined benefit obligation. If the actual rate of return is below the discount rate, the net liability goes up. For the funded plans, however, notably given the share of plan assets invested in equities, we expect that long-term returns will exceed the discount rate. Nonetheless, short to medium-term fluctuations cannot be ruled out, with a corresponding effect on the net liability.

With the defined contribution plans, the Company pays contributions to private or state pension funds under statutory or contractual obligations. The Company's employee benefit obligations are settled on payment of the contributions. The amount recognized as expense for this purpose in the fiscal year was €8,814 thousand (2019: €9,166 thousand). This does not include employer contributions to the statutory pension insurance scheme. These amounted to €7,536 thousand in Germany (2019: €7,929 thousand).

In the fiscal year, for countries with material pension obligations, the following actuarial assumptions were used in the actuarial calculations performed by third-party actuaries:

2020

in %	Germany	Switzerland	United Kingdom	France	United States
Discount rate	0.40	0.15	1.40	0.40	2.35
Salary trend	2.50	0.50	2.15	1.75	3.50
Pension trend	1.75	0.00	2.75	1.25	0.00

2019

in %	Germany	Switzerland	United Kingdom	France	United States
Discount rate	0.80	0.30	2.10	0.80	3.24
Salary trend	2.50	0.50	1.90	1.75	3.50
Pension trend	1.75	0.00	2.80	1.25	0.00

The discount rates reflect the bond markets' interest rates in the respective jurisdiction for high-quality corporate bonds with corresponding maturities. A uniform discount rate was selected for the eurozone.

The mortality assumptions used for pension accounting in the various countries are as follows:

	2020	2019
Germany	Richttafeln 2018 G von Prof. Dr. Klaus Heubeck	Richttafeln 2018 G von Prof. Dr. Klaus Heubeck
Switzerland	BVG 2015	BVG 2015
United Kingdom	SAPS	SAPS
France	INSEE 14-16; TGH05	INSEE 10-12; TGH05
United States	Retirement Plan 2020	Retirement Plan 2019

There are also reimbursement rights – primarily life insurance policies and claims under other insurance policies – used to fund pension obligations. These changed as follows in the fiscal year:

(€ thousand)	2020	2019
Reimbursement rights as of January 1	**3,860**	**3,924**
Expected return	30	65
Actuarial gains (losses)	140	94
Benefits paid	– 225	– 223
Reimbursement rights as of December 31	**3,805**	**3,860**

The actual return on reimbursement rights was €171 thousand in the fiscal year (2019: €159 thousand).

The net provision changed as follows:

	Defined benefit obligation		Fair value of plan assets		Net provision/assets	
(€ thousand)	2020	2019	2020	2019	2020	2019
As of January 1	1,170,766	1,035,020	– 891,846	– 776,090	278,920	258,930
thereof fully or partly funded	949,338	833,541				
Included in statement of income						
Service cost	18,345	16,537	-	-	18,345	16,537
Interest cost for pension plans	13,664	19,493	-	-	13,664	19,493
Interest income from plan assets	-	-	– 10,792	– 14,533	– 10,792	– 14,533
Administration expenses	-	-	1,623	1,632	1,623	1,632
Settlements/amendments	– 9,283	5,180	-	-	– 9,283	5,180
	22,726	**41,210**	**– 9,169**	**– 12,901**	**13,557**	**28,309**
Included in other comprehensive income						
Actuarial losses (gains) due to change in demographic assumptions	– 429	– 2,526	-	-	– 429	– 2,526
Actuarial losses (gains) due to change in financial assumptions	79,788	111,952	-	-	79,788	111,952
Experience losses (gains)	2,867	3,557	-	-	2,867	3,557
Revaluation of plan assets	-	-	– 90,482	– 83,297	– 90,482	– 83,297
Foreign currency exchange rate differences	– 26,737	28,563	23,258	– 27,053	– 3,479	1,510
	55,489	**141,546**	**– 67,224**	**– 110,350**	**– 11,735**	**31,196**
Other						
Employee contributions	14,212	16,485	– 14,212	– 16,485	-	-
Employer contributions	-	-	– 23,015	– 28,790	– 23,015	– 28,790
Benefits paid	– 67,633	– 66,750	51,911	56,213	– 15,722	– 10,537
Transfers	-	3,255	-	– 3,443	-	– 188
	– 53,421	**– 47,010**	**14,684**	**7,495**	**– 38,737**	**– 39,515**
As of December 31	**1,195,560**	**1,170,766**	**– 953,555**	**– 891,846**	**242,005**	**278,920**
thereof included in consolidated statement of other non-financial assets					45,537	5,638
Provisions for pensions and similar obligations					287,542	284,558
thereof fully or partly funded	979,241	949,338				

The table below shows the analysis of the net provision (asset) by countries:

	December 31, 2020			December 31, 2019		
(€ thousand)	Defined benefit obligation	Fair value of plan assets	Net provision/ assets	Defined benefit obligation	Fair value of plan assets	Net provision/ assets
Germany	247,926	37,802	210,124	239,752	35,961	203,791
Austria	1,536	-	1,536	1,399	-	1,399
France	24,249	285	23,964	27,027	282	26,745
United Kingdom	115,193	95,658	19,535	105,531	85,337	20,194
Switzerland	545,542	588,494	– 42,952	544,895	549,024	– 4,129
USA	261,114	231,316	29,798	252,162	221,242	30,920
Total	**1,195,560**	**953,555**	**242,005**	**1,170,766**	**891,846**	**278,920**

The table below shows how the defined benefit obligation would have been affected by changes in key actuarial assumptions:

(€ thousand)	2020	2019
Present value of benefit obligation if		
discount rate would be higher by 50 basis points	1,108,223	1,087,332
discount rate would be lower by 50 basis points	1,294,281	1,265,663
the expected salary trend would be higher by 0.5%	1,201,613	1,176,775
the expected salary trend would be lower by 0.5%	1,189,593	1,164,906
pension increase would be higher by 0.5%	1,244,540	1,219,688
pension increase would be lower by 0.5%	1,178,801	1,155,021
longevity would be 1 year longer	1,241,060	1,213,875

The sensitivities indicated are computed on the basis of the same methods and assumptions as are used to determine the present value of the defined benefit obligations. If one of the actuarial assumptions is changed for the purpose of computing the sensitivity of results to changes in that assumption, all other actuarial assumptions are held constant.

When appraising sensitivities, it should be noted that the change in the present value of the defined benefit obligation resulting from changing multiple actuarial assumptions simultaneously is not necessarily equivalent to the cumulative effect of the individual sensitivities.

The table below disaggregates plan assets into classes of asset:

	December 31, 2020			December 31, 2019		
(€ thousand)	Price quote from active market	No price quote from active market	Total	Price quote from active market	No price quote from active market	Total
Shares	210,064	19,319	229,383	210,488	44,789	255,277
Bonds	161,011	208,665	369,676	154,622	170,579	325,201
Real estate	48,586	153,856	202,442	44,751	141,711	186,462
Other assets	112,903	39,151	152,054	88,045	36,861	124,906
Fair value of plan assets as of December 31	**532,564**	**420,991**	**953,555**	**497,906**	**393,940**	**891,846**

Plan assets do not include any of the entity's own transferable financial instruments; plan assets that are property occupied by, or other assets used by, the entity totaled €15,851 thousand (2019: €15,362 thousand).

Other assets mainly include the following:

	December 31, 2020			December 31, 2019		
(€ thousand)	Germany	Switzerland	United Kingdom	Germany	Switzerland	United Kingdom
Pledged reinsurance claims	37,802	-	-	35,961	-	-
Cash and cash equivalents	-	42,960	5,739	-	37,531	1,789
Commodities	-	25,829	-	-	18,504	-
Infrastructure (Alternative investments)		11,782			7,738	
Hedge funds		6,797			6,392	
Mixed fund	-	-	18,890	-	-	15,081

The actual return on plan assets was €101,273 thousand in the fiscal year (2019: €97,831 thousand).

Losses relating to experience adjustments in the present value of the defined benefit obligation in the year under review were €2,867 thousand (2019: €3,557 thousand); gains relating to experience adjustments to the fair value of plan assets were €90,482 thousand (2019: €83,297 thousand).

The weighted average duration was 16 years. Employer contributions to plan assets for fiscal year 2021 are expected to amount to €15,813 thousand.

The maturity analysis of benefit payments is as follows:

(€ thousand)	
Future benefit payments	
- due in 2021	42,504
- due in 2022	43,166
- due in 2023	44,109
- due in 2024	43,401
- due in 2025	44,145
- due 2026–2030	223,052

(24) Other provisions and accrued liabilities

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

Provisions are recognized at the expected settlement amount and not net of any reimbursement rights. The settlement amount also includes any cost increases to be taken into account at the reporting date. Where the effect of the time value of money in connection with settlement of the obligation is material, provisions are discounted at rates that reflect current market assessments of the time value of money and the risks specific to the liability.

Warranty provisions are recognized on the basis of the estimated probability of claims. Provisions are recognized for onerous sale or purchase contracts when the total costs of meeting the obligations under the contract exceed the expected sales.

Provisions for restructuring measures are recognized if there is a detailed restructuring plan and it has been announced to those affected.

Provisions for onerous contracts are recognized if the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Other provisions changed as follows in the reporting year:

(€ thousand)	As of January 1, 2020	Additions	Accretion	Utilization	Reversals	Other changes*)	As of December 31, 2020
Other provisions							
Other taxes	4,304	261	-	– 438	– 31	– 449	3,647
Personnel-related obligations							
– early retirement schemes	3	-	-	– 3	-	-	-
– anniversary payments	10,092	734	2	– 2,156	-	24	8,696
– other	194	102	-	-	-	– 10	286
Onerous contracts	1,271	3,687	-	– 953	– 2	-	4,003
Restructuring expenses	21,207	54,369	-	– 15,197	– 5,118	– 3,215	52,046
Pending litigation	2,361	525	-	– 257	– 620	700	2,709
Warranties	1,157	552	-	– 24	– 95	– 10	1,580
Miscellaneous provisions	20,699	19,580	44	– 12,245	– 1,860	– 3,732	22,486
	61,288	**79,810**	**46**	**– 31,273**	**– 7,726**	**– 6,692**	**95,453**
Other accrued liabilities							
Personnel-related obligations	47,524	36,079	-	– 31,941	– 267	– 2,240	49,155
Miscellaneous accrued liabilities	5,455	6,597	-	– 1,931	– 11	– 332	9,778
	52,979	**42,676**	**-**	**– 33,872**	**– 278**	**– 2,572**	**58,933**
Other provisions and accrued liabilities	**114,267**	**122,486**	**46**	**– 65,145**	**– 8,004**	**– 9,264**	**154,386**

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

Analysis by maturities:

(€ thousand)	December 31, 2020 Non-current	December 31, 2020 Current	December 31, 2019 Non-current	December 31, 2019 Current
Other provisions				
Other taxes	11	3,636	8	4,296
Personnel-related obligations				
– early retirement schemes	-	-	-	3
– anniversary payments	8,696	-	10,092	-
– other	232	54	169	25
Onerous contracts	8	3,995	7	1,264
Restructuring expenses	-	52,046	-	21,207
Pending litigation	44	2,665	32	2,329
Warranties	-	1,580	-	1,157
Miscellaneous provisions	6,653	15,833	7,005	13,694
	15,644	**79,809**	**17,313**	**43,975**
Other accrued liabilities				
Personnel-related obligations	-	49,155	-	47,524
Miscellaneous accrued liabilities	-	9,778	-	5,455
	-	**58,933**	**-**	**52,979**
Other provisions and accrued liabilities	**15,644**	**138,742**	**17,313**	**96,954**

The provisions for onerous contracts relate to contractual obligations in which contract fulfillment results in a loss.

The provisions for restructuring relate to obligations resulting from termination benefits granted in redundancy programs in an amount of €49,988 thousand (2019: €19,982 thousand) and other restructuring expenses for site closures in an amount of €2,057 thousand (2019: €1,224 thousand) that either result in an outflow of resources in the following year or, to the extent they are material, are recognized as of the reporting date at their discounted settlement amount. The provisions for site closures and social plans were determined on the basis of cost estimates (for example, site rent still to be paid for closed sites) or derived from experience from comparable social plans. Further information on provisions for restructuring are included in Note 6 (Special items affecting the result).

Personnel-related obligations relate in the amount of €8,696 thousand (2019: €10,092 thousand) to anniversary payments in France and Switzerland. The determination of the provision is based on actuarial calculations with interest rates of 0.4% (2019: 0.8%) and 0.15% (2019: 0.2%).

Miscellaneous provisions relate among other things to provisions for asset retirement obligations and provisions for environmental remediations.

Accrued liabilities for employee-related obligations include bonus payments of €34,096 thousand (2019: €32,997 thousand) as well as vacation entitlements and flextime balances in the amount of €11,615 thousand (2019: €11,375 thousand).

(25) Financial liabilities

The details of financial liabilities are as follows:

(€ thousand)	December 31, 2020				December 31, 2019			
	up to 1 year	1-5 years	Over five years	Total	up to 1 year	1-5 years	Over five years	Total
Bonds	145,867	-	-	145,867	1,170	140,133	-	141,303
Liabilities to banks	6,725	69,051	8,200	83,976	15,363	14,825	9,000	39,188
Liabilities under ABS program	98	111,198	-	111,296	645	238,652	-	239,297
Finance lease liabilities	33,927	94,007	51,582	179,516	43,564	101,601	59,750	204,915
	186,617	**274,256**	**59,782**	**520,655**	**60,742**	**495,211**	**68,750**	**624,703**

Financial liabilities of €20,532 thousand (2019: €24,056 thousand) are secured by liens. Inventories as set out in Note 16 (Inventories) and trade receivables as set out in Note 17 (Trade receivables and contract assets) are also pledged as collateral.

Transaction costs directly attributable to the assumption of financial liabilities in the amount of €3,210 thousand (2019: €2,991 thousand) have been deducted from the liabilities.

The volume-weighted remaining term of the core Group financing instruments (Syndicated Loan, 2016 Convertible Bond, European ABS, US ABL and Swiss bilateral credit lines) is 2.3 years as of the reporting date. None of the instruments matures in 2021, although investors in the 2016 convertible bond have an investor put option after five years (September 2021).

Bonds

A €148 million senior unsecured convertible bond issue was placed with non-US institutional investors closing September 8, 2016. The issuer is Klöckner & Co Financial Services S.A., a wholly-owned Luxembourg subsidiary. The bonds are guaranteed by Klöckner & Co SE and are convertible into new or existing shares in Klöckner & Co SE. Klöckner & Co is using the proceeds from the issue for general business purposes.

The coupon on the bonds was set at 2.00% p. a. and the conversion price at 27.5% over the issue date reference price, corresponding to an initial conversion price of €14.82. In accordance with the bond terms, the conversion price was adjusted to €13.3305 following the dividend payouts in May 2017, May 2018 and May 2019. The bond has a seven-year term. Under the bond terms, holders can demand early redemption after five years at par value plus accrued interest (investor put option). The issuer does not have an early call option during the first five years. It does have such an option thereafter provided that, over certain stipulated periods, the market price of Klöckner & Co shares exceeds 130% of the conversion price.

For accounting purposes, the convertible bond issue is divided into an equity and a debt component. The equity component at the time of issue was €18 million after deducting transaction costs and accounting for deferred taxes. It was credited to capital reserves.

Liabilities to banks
In April 2020, we extended the majority – €278 million – of the €300 million syndicated loan on unaltered terms through to May 2023. The remaining €22 million continues to fall due in May 2022. This has further improved the maturity profile of Klöckner & Co's Group finances. The facility is provided, as before, by a syndicate of nine banks.

The financial covenants require that gearing, defined as net financial debt divided by the book value of equity attributable to shareholders of Klöckner & Co SE less goodwill resulting from acquisitions after May 23, 2019, may not exceed 165%. The thus adjusted book value of equity attributable to shareholders of Klöckner & Co SE may not fall below €600 million (minimum equity). Breach of the financial covenants would require repayment of all outstanding amounts. Subsequent drawings would then be possible if the covenants were once again complied with. Throughout the fiscal year 2020, the Group consistently complied with all loan terms, including the financial covenants.

The remaining liabilities to banks comprise bilateral borrowings by the country organizations. Most of this is accounted for by the ABL facility newly arranged at the US country organization in November 2020, which replaced the previous standalone ABS and ABL facilities. The new ABL facility matures in March 2024 and is provided by three banks. The facility amount, which previously totaled USD 550 million (USD 275 million ABS and USD 275 million ABL), was reduced to USD 330 million. This reflects lower future working capital funding requirements as a result of the Surtsey project. The group has additional bilateral borrowings at its disposal from the country organizations, which are used, among other things, to finance net working capital.

Liabilities under ABS program
Since July 2005, the Klöckner & Co Group has operated a European ABS program. In October 2020, the European ABS program was extended ahead of schedule on improved terms until November 2023. The size of the program was modified from €300 million to €220 million. This reflects lower future working capital funding requirements as a result of the Surtsey project. The agreed covenants are also based on the statement of financial position and are equivalent to those for the syndicated loan.

A USD 275 million ABS program previously in place in the USA was terminated in November 2020 and combined with the existing ABL facility. The new ABL facility is accounted for under liabilities to banks.

Utilization of the programs including accumulative interest totaled €112 million as of the reporting date and breaks down as follows:

(€ million)	December 31, 2020	December 31, 2019
European program		
– utilization	112	115
– maximum volume	220	300
American program*)		
– utilization	-	124
– maximum volume	-	245

*) The American program was terminated and integrated in the ABL facility, which is recorded under liabilities to banks.

Lease liabilities

Lease liabilities have the following term structure:

(€ thousand)	December 31, 2020	December 31, 2019
Due within one year	38,093	47,722
Due between one and five years	104,412	111,619
Due after five years	60,308	69,600
Future minimum lease payments	**202,813**	**228,941**
Due within one year	4,166	4,158
Due between one and five years	10,405	10,018
Due after five years	8,726	9,850
Interest included in future minimum lease payments	**23,297**	**24,026**
Due within one year	33,927	43,564
Due between one and five years	94,007	101,601
Due after five years	51,582	59,750
Total present value of future minimum lease payments	**179,516**	**204,915**

(26) Trade payables

(€ thousand)	December 31, 2020	December 31, 2019
Advance payments received	983	124
Trade payables	458,403	584,242
Contract liabilities	1,829	1,137
Provisions for pending invoices	14,003	13,745
Trade payables	**475,218**	**599,248**

(27) Other financial and non-financial liabilities

(€ thousand)	December 31, 2020 Current	December 31, 2020 Non-current	December 31, 2019 Current	December 31, 2019 Non-current
Other financial liabilities	**37,523**	**2,313**	**32,484**	**144**
Negative fair value of derivative financial instruments	2,470	-	321	-
Customers with credit balances	12,009	-	12,366	-
Liabilities to employees	6,936	-	3,285	2
Social security contributions	4,946	2,176	8,053	-
Miscellaneous other financial liabilities	11,162	137	8,459	142
Other non-financial liabilities	**41,461**	**-**	**25,807**	**-**
Value-added tax liabilities	11,622	-	14,275	-
Other tax liabilities	11,773	-	8,211	-
Deferred income	1,620	-	3,321	-
Miscellaneous other non-financial liabilities	16,446	-	-	-
Other liabilities	**78,984**	**2,313**	**58,291**	**144**

The increase in other current liabilities is due to an advance payment by the purchaser on the purchase price of a property belonging to Klöckner & Co Deutschland GmbH, Duisburg, Germany.

Other disclosures

(28) Information on capital management

The Klöckner & Co Group determines its capital requirements in relation to risk. Management of and any adjustment in the capital structure is carried out with due regard to changes in the economic environment. Options for maintaining or adjusting the capital structure include adjusting dividend payments, capital repayments to shareholders, issuing new shares and the sale of assets to reduce liabilities.

Capital is managed on the basis of gearing. The Klöckner & Co Group's target is to maintain gearing below the 165% (2019: 165%) required under the financial covenants in order to be able to continue borrowing on reasonable terms.

Further information about the basis of calculation for gearing and about minimum capital requirements is provided in Note 25 (Financial liabilities).

Gearing is determined as follows:

(€ thousand)	December 31, 2020	December 31, 2019	Variance
Financial liabilities	520,655	624,703	– 104,048
Transaction costs	3,210	2,991	219
Liquid funds	– 172,566	– 182,520	9,954
Net financial debt (before deduction of transaction cost)	**351,299**	**445,174**	**– 93,875**
Consolidated shareholders' equity	1,043,138	1,182,466	– 139,328
Non-controlling interests	– 7,108	– 6,912	– 196
Adjusted shareholders' equity	**1,036,030**	**1,175,554**	**– 139,524**
Gearing	**33.9%**	**37.9%**	**– 4.0%p**

(29) Financial instruments

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

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

The fair value option provided by IFRS 9 (Financial Instruments) is not applied.

Financial instruments are measured on initial recognition at fair value. Transaction costs directly attributable to the acquisition or issue of a financial instrument are included in the carrying amount except in the case of financial instruments at fair value through profit or loss. Subsequent measurement of financial assets is carried out using the categories under IFRS 9 (Financial Instruments) according to business model and contractual cash flow characteristics. This results in measurement at amortized cost, at fair value through profit or loss or at fair value through other comprehensive income. Financial liabilities are measured at amortized cost or at fair value through profit or loss.

a) Non-derivative financial assets and financial liabilities and equity instruments issued by Klöckner & Co
Cash and cash equivalents include cash on hand, bank balances and short-term securities with an original maturity of less than three months with an insignificant risk of changes in value. They are measured at nominal value. Foreign currency balances are measured at the mid-point rate at the reporting date.

Financial assets at fair value through profit or loss include financial assets initially classified as held for trading. In the Klöckner & Co Group, this classification is applied exclusively to derivative financial instruments that are designated hedging instruments to which hedge accounting is applied. Such assets are presented as other assets in the statement of financial position.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured at amortized cost using the effective interest method. Also classified in this category are non-current securities that are not quoted in an active market and long-term loans measured at amortized cost.

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

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

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

An equity or debt instrument is classified as a financial liability or as equity according to the substance of the contractual agreement. Equity instruments are recognized in the amount of the issue proceeds less directly attributable transaction costs.

The components of compound financial instruments such as convertible bonds are recognized separately as financial liabilities and equity. At the issue date, the fair value of the liability component is determined by discounting at the market interest rate for comparable financial instruments without conversion rights. Subsequent accounting of the liability component as a financial liability is on an amortized cost basis until conversion or maturity of the bond. Applying the with-and-without method, the remaining difference represents the equity component, which is accounted for in capital reserves with no subsequent adjustment.

Financial liabilities are either classified as liabilities at fair value through profit or loss or as other financial liabilities.

In the Klöckner & Co Group, only derivative financial instruments that are not designated and effective as hedging instruments are recognized as liabilities at fair value through profit or loss. Any negative fair value of such instruments is presented in other liabilities.

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

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

b) Derivative financial instruments

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

Derivatives are initially measured at fair value on inception and subsequently measured at fair value at each reporting date. Any gain or loss from a change in the fair value of a derivative financial instrument that is not a designated and effective cash flow hedge or hedge of a net investment is immediately recognized in profit or loss. For derivative financial instruments that are designated hedges, the timing of the recognition of gains or losses depends on the type of hedge. The Klöckner & Co Group uses certain derivative financial instruments to hedge recognized assets or liabilities. Certain unrecognized firm commitments are also hedged.

Forward exchange transactions are measured item by item at the forward rate as of the reporting date, and exchange differences arising due to the contracted forward exchange rate are recognized in profit or loss.

Interest exchange amounts from interest rate swaps are recognized in profit or loss at the payment date or on accrual at the reporting date. In all other respects, interest rate swaps, like interest rate caps, are measured at fair value at the reporting date and – unless hedge accounting is applied – changes in their fair value during the reporting period are recognized in profit or loss.

Derivatives held for hedging purposes are classified as non-current assets or liabilities if the remaining term of the hedging relationship is more than twelve months and as current assets or liabilities if the remaining term of the hedging relationship is less than twelve months.

Derivatives not designated in a hedging relationship are classified as current assets or liabilities.

c) Hedge accounting

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

The Klöckner & Co Group designates individual derivatives held for hedging purposes either as cash flow hedges or as hedges of foreign net investments, according to volume, term and risk structure.

The relationship between the hedged item and the hedging instrument, including the risk management objectives and the Company's strategy for undertaking the hedge, are documented at the inception of the hedge. At the inception of the hedge and regularly on an ongoing basis, the hedge is assessed and it is documented whether the hedge is highly effective in offsetting changes in the cash flows attributable to the hedged risk or the net investment. Information on the fair values of these derivative financial instruments is provided in Note 29 (Derivative financial instruments); changes in the reserve for fair value adjustments of financial instruments within other comprehensive income are shown in the summary of changes in consolidated equity.

The effective portion of the change in the fair value of derivative financial instruments designated as cash flow or net investment hedges is recognized in other comprehensive income; the ineffective portion is recognized directly in profit or loss. The amounts recognized in other comprehensive income are reclassified to profit or loss in the period in which the hedged item is recognized in profit or loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or ceases to be effective. Any cumulative gain or loss that has been recognized in other comprehensive income from changes in the fair value of the derivative remains in other comprehensive income and is reclassified to profit or loss when the forecast transaction is recognized in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss recognized in other comprehensive income is immediately recognized in profit or loss.

Additional disclosures on financial instruments

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

Financial assets as of December 31, 2020			Category			Fair value			
(€ thousand)	Presented in the Statement of Financial Positions as	Carrying amount	Fair value recognized in profit and loss	Fair value recognized in equity	Amortized costs	Level 1	Level 2	Level 3	Total
Measured at fair value									
Derivative financial instruments not designated in hedge accounting (held for trading)	Current and non-current other assets	3,235	3,235	-	-	-	3,235	-	3,235
Participations	Financial assets	14,437	13,437	1,000	-	-	-	14,437	14,437
Short term deposits (< 3 months)	Cash and cash equivalents	2,865	2,865	-	-	-	2,865	-	2,865
Not measured at fair value									
Trade receivables and contract assets	Trade receivables and contract assets	543,326	-	-	543,326	-	-	-	-
Cash and cash equivalents	Cash and cash equivalents	169,701	-	-	169,701	-	-	-	-
Other financial assets at cost	Current and non-current other assets	16,652	-	-	16,652	-	16,652	-	16,652
Other financial assets at cost	Bonus claims to suppliers	43,253	-	-	43,253	-	-	-	-
Total		**793,469**	**19,537**	**1,000**	**772,932**	**-**	**22,752**	**14,437**	**37,189**

Financial liabilities as of December 31, 2020 (€ thousand)	Presented in the Statement of Financial Positions as	Carrying amount	Category			Fair value			
			Fair value recognized in profit and loss	Fair value recognized in equity	Amortized costs	Level 1	Level 2	Level 3	Total
Measured at fair value									
Derivative financial instruments not designated in hedge accounting (held for trading)	Other current and non-current liabilities	2,470	2,470	-	-	-	2,470	-	2,470
Not measured at fair value									
Financial liabilities at cost	Current and non-current financial liabilities	341,139	-	-	341,139	-	346,688	-	346,688
Lease liabilities	Current and non-current financial liabilities	179,516	-	-	179,516	-	-	-	-
Trade payables	Trade payables	475,218	-	-	475,218	-	-	-	-
Other financial liabil-ities at cost	Other non-current liabilities	2,313	-	-	2,313	-	-	137	137
Other financial liabil-ities at cost	Other current liabili-ties	35,053	-	-	35,053	-	-	-	-
Total		**1,035,709**	**2,470**	**-**	**1,033,239**	**-**	**349,158**	**137**	**349,295**

Financial assets as of December 31, 2019 *(€ thousand)*	Presented in the Statement of Financial Positions as	Carrying amount	Category: Fair value recognized in profit and loss	Category: Fair value recognized in equity	Category: Amortized costs	Fair value: Level 1	Fair value: Level 2	Fair value: Level 3	Total
Measured at fair value									
Derivative financial instruments not designated in hedge accounting (held for trading)	Current and non-current other assets	1,622	1,622	-	-	-	1,622	-	1,622
Participations	Financial assets	8,831	7,831	1,000	-	-	-	8,831	8,831
Short term deposits (< 3 months)	Cash and cash equivalents	1,571	1,571	-	-	-	1,571	-	1,571
Not measured at fair value									
Trade receivables and contract assets	Trade receivables and contract assets	611,432	-	-	611,432	-	-	-	-
Cash and cash equivalents	Cash and cash equivalents	180,949	-	-	180,949	-	-	-	-
Other financial assets at cost	Current and non-current other assets	16,469	-	-	16,469	-	16,469	-	16,469
Other financial assets at cost	Bonus claims to suppliers	63,827	-	-	63,827	-	-	-	-
Total		**884,701**	**11,024**	**1,000**	**872,677**	**-**	**19,662**	**8,831**	**28,493**

Financial liabilities as of December 31, 2019			Category			Fair value			
(€ thousand)	Presented in the Statement of Financial Positions as	Carrying amount	Fair value recognized in profit and loss	Fair value recognized in equity	Amortized costs	Level 1	Level 2	Level 3	Total
Measured at fair value									
Derivative financial instruments not designated in hedge accounting (held for trading)	Other current and non-current liabilities	321	321	-	-	-	321	-	321
Not measured at fair value									
Financial liabilities at cost	Current and non-current financial liabilities	419,788	-	-	419,788	-	422,742	-	422,742
Lease liabilities	Current and non-current financial liabilities	204,915	-	-	204,915	-	-	-	-
Trade payables	Trade payables	599,248	-	-	599,248	-	-	-	-
Other financial liabilities at cost	Other non-current liabilities	144	-	-	144	-	-	142	142
Other financial liabilities at cost	Other current liabilities	32,163	-	-	32,163	-	-	-	-
Total		**1,256,579**	**321**	**-**	**1,256,258**	**-**	**423,063**	**142**	**423,205**

Measurement of the fair value of the equity investments in the amount of €14,437 thousand (2019: €8,831 thousand) is as level 3. These are mostly unquoted financial instruments (equity investments) for which there is no active market. Of the change in the financial year, an increase of €5,795 thousand (2019: €2,752 thousand) is attributable to capital measures and a decrease of €190 thousand (2019: €2,502 thousand) to changes in fair value. Fair value is measured on the basis of available financial information, such as transaction prices for financing rounds or business plans to the extent that this information is reliable, or, as an approximation, as cost, which is considered an appropriate estimate of fair value as no more suitable information is available. A review is carried out on a quarterly basis using all information available on the equity investments to establish whether cost is still representative of fair value. This would no longer be the case, for example, in the event of a significant change in the market in which the equity investments are active. As cost is the sole input factor for fair value, a percentage change in cost results in an equal change in fair value. The estimated fair value would increase (decrease) with any increase (decrease) in cost. A 0.5% increase (decrease) would not materially affect fair value.

The fair values of non-current financial liabilities are determined on the basis of risk-adjusted discounted cash flows.

In the case of current financial assets (mostly other assets), fair values are largely identical to carrying amounts. The fair values of financial liabilities reflect the current market situation for the respective financial instruments as of December 31, 2020. Their fair values are not reduced by transaction costs. For current financial liabilities, when there are no transaction costs to be deducted, their carrying amount is identical to fair value.

Financial instruments are classified as Level 1 if the fair value is obtained from quoted prices in active markets. Fair values determined using other directly observable market inputs are classified as Level 2.

There is no indication of any change in the fair interest rates determined on initial recognition. For this reason, fair value is based on the carrying amount. Changes in hierarchy levels are taken into account at the end of the period in which the change took place. There were no transfers between hierarchy levels during the reporting year.

The put liability from acquisition of the GSD Group in other non-current liabilities is a Level 3 fair value. The put option was entered into for a potential future transfer of non-controlling interests valued by discounting future earnings based on budget figures. The future earnings are based on budget figures. These liabilities totaled €137 thousand in the fiscal year (2019: €142 thousand).

Derivative financial instruments

Derivative financial instruments are accounted for at fair value in accordance with IFRS 9.

The Klöckner & Co Group is exposed to interest and currency risk in its operating business. This risk is hedged using derivative financial instruments.

The Group exclusively uses market instruments with sufficient market liquidity. Derivative financial instruments are entered into and managed in compliance with internal directives governing the scope of action, responsibilities and controls. According to these directives, the use of derivative financial instruments is a primary responsibility of the Corporate Treasury department of Klöckner & Co SE, which manages and monitors the use of such instruments. Such transactions are only entered into with credit institutions with impeccable ratings. Derivative financial instruments are not allowed to be used for speculative purposes and may only be used to hedge risks associated with hedged items.

The notional amounts and fair values of the derivative financial instruments in interest rate and currency hedges as of the reporting date are as follows:

	December 31, 2020		December 31, 2019	
(€ million)	Not designated in hedge-accounting	Designated in hedge-accounting	Not designated in hedge-accounting	Designated in hedge-accounting
Nominal values				
Forward exchange transactions	228.3	-	286.9	-
Fair values				
Forward exchange transactions	0.9	-	1.3	-

The notional amounts correspond to the non-netted sum of the currency and interest rate portfolio.

The fair values of the derivative financial instruments are determined on the basis of quantitative finance methods using standard banking models. Counterparty risk as of the measurement date is taken into account in the determination of fair values. Where market prices exist, these correspond to the price a third party would pay for the rights or obligations arising from the financial instruments. The fair values are the market values of the derivative financial instruments, irrespective of any offsetting changes in the value of hedged items.

Forward exchange contracts with a notional amount of €228 million (2019: €287 million) have a remaining maturity of less than one year. These include a notional amount of €185 million (2019: €262 million) for the hedging of intra-Group loans.

The contractual agreements with counterparties do not give rise to any rights of set-off to be disclosed in accordance with IFRS 7.13B as of December 31, 2020.

(30) Financial risk management

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

Credit risk

The Company's exposure to credit risk mainly arises from its operating business. A credit risk is defined as an unexpected loss on financial assets, such as if a customer is unable to meet its obligations when due. Operating receivables are locally monitored on an ongoing basis. Credit risk is taken into account by valuation allowances.

The maximum exposure to credit risk is reflected by the carrying amounts of financial assets in the statement of financial position. The Klöckner & Co Group addresses credit risk with its own credit management and by taking out trade credit insurance. In the fiscal year, €218 million (2019: €254 million) of trade receivables were covered by credit insurance.

Trade receivables
Prospective customers are credit-checked against an in-house risk board before order acceptance. Additionally, there is an active receivables management system incorporating trade credit insurance. The broadly diversified receivables pool is also used for financing purposes an ABS program in Europe and an ABL facility in the USA.

In addition to local monitoring by each subsidiary, Klöckner & Co SE also monitors significant credit risk at Group management level in order to better control specific individual risks and any cumulative risk.

There is no risk concentration at Group level as trade receivables relate to large numbers of customers from a variety of sectors and regions. Klöckner & Co applies the simplified approach to trade receivables and contract assets, recognizing the lifetime expected credit losses on inception. Determination of expected credit losses under the simplified approach is performed at Klöckner & Co in risk groups using historic credit loss rates. The assignment to risk groups is made on the basis of shared credit risk characteristics. For Klöckner & Co, these include a customer's geographical location and the past due status of contract assets.

Future-oriented information is incorporated by adjusting historic credit loss rates with scaling factors. These are based on gross domestic product (GDP) growth rates in each region, which were revised following the onset of the COVID-19 pandemic and are continuously monitored. Due to the structure of the receivables portfolio, the impact of this was small (under €1 million).

Contract assets relate to work in progress that has not yet been invoiced and generally have the same risk characteristics as trade receivables for the same types of contract. Klöckner & Co has therefore concluded that the expected credit loss rates on trade receivables not past due are a suitable approximation of loss rates for contract assets.

Individual valuation allowances are recognized under the simplified approach when one or more events have occurred that have a detrimental impact on the debtor's creditworthiness. Such events include payment delays, imminent insolvency or the granting of concessions to the debtor on account of payment difficulties. Trade receivables and contract assets are written off if recovery is no longer probable. This is the case, for example, if a debtor becomes insolvent.

(€ thousand)	2020	2019
Writedowns as at January 1 under IAS 39	15,228	15,899
Writedowns as at January 1 under IFRS 9	**15,228**	**15,899**
Utilisation	– 1,304	– 284
Additions	80	– 563
Exchange rate differences	– 317	176
Writedowns as of December 31	**13,687**	**15,228**

The change in the valuation allowance is mainly due to the increase/decrease in the gross carrying amount of trade receivables/contract assets that are credit-impaired.

The table below contains information on credit risk and expected credit losses on trade receivables and contract assets:

2020	Gross Trade receivables (€ thousand)	Average default rates (in %)	Expected Credit Loss (€ thousand)
Germany/Austria	114,919	0.088–0.107	133
Switzerland	71,647	0.147	88
United Kingdom	37,361	0.834	312
France	65,734	0.305	242
USA	227,955	0.076	175
Netherlands	29,744	0.150	5
Other	9,653	0.076–0.834	14
Total	**557,013**	**0.076–0.834**	**969**

2019	Gross Trade receivables (€ thousand)	Average default rates (in %)	Expected Credit Loss (€ thousand)
Germany/Austria	133,369	0.019–0.048	75
Switzerland	84,567	0.059	48
United Kingdom	47,157	0.354	176
France	78,300	0.176	102
USA	243,715	0.031	98
Netherlands	28,978	0.070	11
Other	10,574	0.019–0.354	3
Total	**626,660**	**0.019–0.354**	**513**

In addition to the expected credit losses, valuation allowances were recognized in the amount of €12,718 thousand (2019: €14,715 thousand) for incurred losses on trade receivables.

Cash and cash equivalents

As part of liquidity management, Klöckner & Co SE deposits cash and cash equivalents exclusively with the Group's core banks, which hold an investment grade rating. Their credit standing is also regularly monitored against credit default swaps (CDSs).

Cash consists of bank balances and short-term deposits in the form of call and time deposits. The maximum investment period is 90 days.

On the basis of the limited investment period, the banks' credit ratings and current CDS premiums, cash and cash equivalents have low default risk. No material impairment losses were therefore recognized on cash and cash equivalents in fiscal year 2020.

Disclosures on interest rate risk

Klöckner & Co is exposed to interest rate changes due to the use of financial instruments. The hedging policy is geared to risk arising from interest rate changes on variable-rate financial liabilities. The Klöckner & Co Group faces interest rate risk exposure on its central financing instruments in the eurozone (syndicated loan; European ABS) and on local borrowings, notably by the US country organization (US ABL) and by the Swiss country organization (bilateral credit lines). There is additional interest rate risk exposure on short-term deposits of liquid funds at banks. The Corporate Treasury Department monitors and controls interest rate risk on financial liabilities.

As part of central Group financing, the Group's borrowing needs are primarily met with a diversified portfolio of financing instruments. These mainly comprise the working capital instruments (syndicated loan; European ABS; US ABL) supplemented by the September 2016 convertible bond issue. The working capital instruments are variable-rate financial instruments, generally with flexible drawing provisions. The convertible bond was issued with a fixed coupon and is subject to no interest rate risk for its entire term to maturity.

As of December 31, 2020, taking into account the fixed-coupon convertible bond in the amount of €148 million, local borrowings in the amount of €33 million and lease liabilities in the amount of €180 million, €360 million or some 69% (2019: €390 million or approximately 62%) of financial liabilities before transaction costs were fixed-rate.

Interest rate risk exposures and opportunities are presented using sensitivity analyses in accordance with IFRS 7. These show how interest income and expense and equity as of the reporting date are affected by changes in market interest rates. Interest rate risk is measured as cash flow risk.

Scenario-based sensitivity analysis is used to show the effects on Klöckner & Co's profit or loss of a parallel shift in yield curves in the relevant currencies. The cash flow effect of the shift in the yield curve relates solely to interest expense and income for the following reporting period.

On the basis of financial liabilities as of December 31, 2020, an increase in market interest rates on each of the relevant currencies by 100 basis points would have a negative effect on the financial result in the amount of approximately €1.7 million (2019: €2.4 million) for an analysis period of one year.

	2020	2019
	100 bp	100 bp
EUR	0.9	0.8
USD	0.5	1.2
GBP	0.3	0.4
CHF	0.0	0.0
Total	**1.7**	**2.4**

A rising interest rate scenario creates upside potential for the accumulated holdings of liquidity. Assuming a one-year investment period, an increase in market interest rates by 100 basis points would have a positive effect in the amount of €1.7 million (2019: €1.8 million).

	2020	2019
	100 bp	100 bp
EUR	1.1	0.8
USD	0.2	0.3
GBP	0.2	0.5
CHF	0.2	0.2
Total	**1.7**	**1.8**

Conversely, a decrease in market interest rates by 100 basis points would result in a substantially negative interest rate scenario in the eurozone and Switzerland and a very low interest level in the USA. We expect that such a scenario would show the aforesaid effects on profit or loss in the opposite direction.

Disclosures on currency risk

Within our risk strategy, only transaction risk and risk on intra-Group borrowings are subject to our hedging policy. Our hedging activities do not target translation risk relating to the translation of income and expenses into our Group currency. Currency risk therefore arises from borrowing, intra-Group dividend payments, acquisitions and operating activities.

The Klöckner & Co Group operates central foreign currency management. Domestic and foreign subsidiaries are required to identify currency risk and to hedge it through the Corporate Treasury Department or, within set limits, individually with banks. The hedges cover currency risk on recognized sales and purchases as well as on firm sale and purchase commitments. With regard to currency risk on firm sale commitments, the hedging strategy takes into account the compensatory effects of operating measures and market changes (natural hedges).

At the reporting date, the Klöckner & Co Group did not have any material exposure to currency risk arising from its operating activities or acquisitions.

In financing, currency risk arises on foreign currency loans provided by Klöckner & Co SE to subsidiaries. These loans are granted to finance Group companies as part of central Group financing and are fully hedged. As of the reporting date, there were pound sterling and US dollar loans of this kind totaling €183 million (2019: €230 million). The intra-Group loans, including ongoing interest payments, have been hedged with forward contracts and currency swaps.

Currency transactions at our subsidiaries in the Netherlands, Switzerland and the UK amounted to €43 million at the year-end. These relate to forward exchange contracts and currency swaps entered into to hedge customer and supplier payments.

A sensitivity analysis is performed to show the effects of changes in exchange rates on foreign exchange gains and losses as well as on equity as of the reporting date. Currency risk is measured as cash flow risk (flow variable-based analysis) for the following year.

The fair value of our currency swaps was €0.9 million as of the reporting date (2019: €1.3 million).

Disclosures on liquidity risk
Liquidity requirements are continuously budgeted by the Klöckner & Co Group and monitored by the Corporate Treasury Department to ensure appropriate levels of liquidity for the Group.

In total, the Group has credit facilities (including the convertible bond issue and leases) in the amount of approximately €1.3 billion (2019: €1.6 billion). Financial liabilities plus transaction costs came to €521 million (2019: €625 million). This corresponds to approximately 41% of the credit facilities (2019: 39%).

In April 2020, Klöckner & Co extended the majority €278 million of its €300 million syndicated loan through to May 2023. In October 2020, the European ABS program was extended ahead of schedule until November 2023. The size of the program was modified from €300 million to €220 million. In addition, in November, the USA country organization combined the previously stand-alone ABS and ABL facilities into a single ABL facility and reduced the total facility amount from USD 550 million to USD 330 million. The European ABS program and the US facility were able to be downscaled because the Surtsey transformation project reduced future working capital financing requirements.

The COVID-19 pandemic has had no impact on liquidity risk to date.

The following table shows contractual undiscounted interest and principal payments for non-derivative and derivative financial instruments as of each reporting date.

December 31, 2020 (€ thousand)		Cash outflows: Less than one year	Cash outflows: 1– 5 years	Cash outflows: More than 5 years	Total
Bonds	Nominal values	147,800	-	-	147,800
	Interest	2,956	-	-	2,956
	Total	**150,756**	**-**	**-**	**150,756**
Bank loans	Nominal values	6,732	71,445	8,200	86,377
	Interest	5,774	11,197	970	17,941
	Total	**12,506**	**82,642**	**9,170**	**104,318**
ABS	Nominal values	-	111,695	-	111,695
	Interest	1,625	3,141	-	4,766
	Total	**1,625**	**114,836**	**-**	**116,461**
Lease liabilities	Nominal values	33,927	94,007	51,582	179,516
	Interest	4,166	10,405	8,726	23,297
	Total	**38,093**	**104,412**	**60,308**	**202,813**
Total financial liabilities		**202,980**	**301,890**	**69,478**	**574,348**
Cash outflows from derivative financial instruments designated in interest hedging relationships		**-**	**-**	**-**	**-**

December 31, 2019 (€ thousand)		Cash outflows: Less than one year	Cash outflows: 1– 5 years	Cash outflows: More than 5 years	Total
Bonds	Nominal values	-	147,800	-	147,800
	Interest	2,956	2,028	-	4,984
	Total	**2,956**	**149,828**	**-**	**152,784**
Bank loans	Nominal values	15,405	16,691	9,000	41,096
	Interest	4,166	5,579	1,387	11,132
	Total	**19,571**	**22,270**	**10,387**	**52,228**
ABS	Nominal values	-	238,992	-	238,992
	Interest	7,260	3,418	-	10,678
	Total	**7,260**	**242,410**	**-**	**249,670**
Lease liabilities	Nominal values	43,564	101,601	59,750	204,915
	Interest	4,158	10,018	9,850	24,026
	Total	47,722	111,619	69,600	228,941
Total financial liabilities		**77,509**	**526,127**	**79,987**	**683,623**
Cash outflows from derivative financial instruments designated in interest hedging relationships		**-**	**-**	**-**	**-**

The table includes all instruments for which contractual payments are agreed as of the reporting date; budgeted payments for new liabilities to be assumed in the future are not included. Variable interest on financial instruments is determined on the basis of the forward yield curve immediately before the reporting date. For drawings on the revolving credit facility, it was assumed that the level of drawings as of the reporting date will be maintained for the remaining term of the facility.

Net gains or losses by category

Net gains or losses for the loans and receivables measurement category are as follows:

(€ thousand)	December 31, 2020	December 31, 2019
Exchange rate differences	150	733
Valuation allowance	– 2,647	– 1,024
Subtotal	**– 2,497**	**– 291**
Net income credit insurance	– 1,206	– 2,041
Net result	**– 3,703**	**– 2,332**

There was a net loss from valuation allowances of €490 thousand (2019: €2,502 thousand) in the category comprising equity instruments for which changes in fair value remain in other comprehensive income (OCI).

The net gain or loss in the other financial liabilities category relates to currency translation. In the fiscal year, there was a net loss of €50 thousand (2019: net gain of €119 thousand).

Financial assets measured at fair value total €3,235 thousand (2019: €1,622 thousand). The net effect on earnings (other effects recognized in profit or loss) is €1,613 thousand (2019: €768 thousand).

There are €2,470 thousand (2019: €321 thousand) in financial liabilities measured at fair value and €1,033,239 thousand (2019: €1,256,258 thousand) in financial liabilities measured at amortized cost. This resulted in €2,151 thousand (2019: €363 thousand) net effect on earnings (other effects recognized in profit or loss).

(31) Litigation, contingent liabilities and commitments

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

The Klöckner & Co Group is not involved in any litigation or arbitration proceedings that could have a material impact on the Group's financial situation. Notwithstanding extensive compliance measures, however, isolated compliance violations and legacy cases cannot be ruled out.

There are also guarantees that are given on divestments and property disposals. Such guarantees cover customary representations and warranties as well as environmental and tax contingencies.

Other commitments arise from capital expenditure purchase obligations; these amounted as of December 31, 2020 to €22.3 million (2019: €7.1 million).

(32) Related party transactions

Business relations with related parties do not differ from business relationships with other parties.

The principles of the compensation system for the Management Board and the Supervisory Board are set out in detail with disclosures for individual members in the remuneration report, which is an integral part of the management report. The table below shows total compensation of members of the Management Board of Klöckner & Co SE – differing from the disclosures of compensation granted and allocated contained in the remuneration report – pursuant to the stipulations of German commercial law (prior-year figures in brackets):

(€ thousand)	Fixed components	Bonuses	Other remunerations	Total	Defined benefit obligation	Service cost[4]
Gisbert Rühl (CEO)	1,090	1,904	41	3,035	18,418	1,029
	(1,023)	(1,746)	(41)	(2,810)	(15,574)	(766)
Guido Kerkhoff[1]	250	431	89	770	-	-
	(-)	(-)	(-)	(-)	(-)	(-)
Dr. Oliver Falk (CFO)	420	705	67	1,192	7,265	109
	(175)	(287)	(28)	(490)	(6,463)	(219)
John Ganem	420	705	69	1,194	3,102	158
	(175)	(287)	(22)	(484)	(2,351)	(2,441)
Marcus A. Ketter (CFO)[2]	-	-	-	-	-	-
	(180)	(310)	(68)	(558)	(-)	(-)
Jens M. Wegmann[3]	-	-	-	-	-	-
	(280)	(420)	(32)	(732)	(-)	(190)
Total	**2,180**	**3,745**	**266**	**6,191**	**28,785**	**1,296**
	(1,833)	**(3,050)**	**(191)**	**(5,074)**	**(24,388)**	**(3,616)**

1) Guido Kerkhoff was appointed to the Management Board (as Deputy Chairman) effective September 1, 2020.
2) Marcus A. Ketter left as of May 15, 2019.
3) Jens M. Wegmann left as of July 31, 2019.
4) The post-employment benefits in 2019 for Management Board members Dr. Oliver Falk and John Ganem, who joined part-way through the year 2019, include the service cost for the full year 2019. In the case of John Ganem, €2,282 thousand relate to past service cost which also concerns his service as CEO of Kloeckner Metals Corporation, Delaware, USA, before his appointment to the Management Board.

The following table illustrates the remuneration in accordance with IAS 24 (Related Party Disclosure) for the Management Board and the Supervisory Board:

(€ thousand)	2020	2019
Short-term benefits (IAS 24.17 a)		
-Management Board	6,191	5,074
-Supervisory Board	473	523
Termination benefits (IAS 24.17 d)	-	2,201
Change in fair values of share-based payments (IAS 24.17 e)	170	90
Service cost for pension obligations (IAS 24.17 e)	1,296	3,616
Total remunerations IFRS	**8,130**	**11,504**

Pension provisions for former Management Board members amount to €9,030 thousand (2019: €8,775 thousand). Pension payments to former members of the Management Board in the reporting year amounted to €222 thousand (2019: €222 thousand).

Transactions with members of the Management Board are restricted in the reporting period to transactions in their capacity as members of the Management Board as set out above.

A list of the members of the Management Board is provided on page 12 and a list of the members of the Supervisory Board is provided on page 22 of this Annual Report.

In fiscal year 2020, for the first time, Klöckner & Co SE was a dependent company of SWOCTEM GmbH, Haiger, within the meaning of Section 312 of the German Stock Corporation Act. Pursuant to Section 312 (1) of the German Stock Corporation Act, the Management Board of Klöckner & Co SE has therefore prepared a report of the Management Board on relations with affiliated companies. Please see the concluding statement to the report in section 4.1 of the combined management report for fiscal year 2020.

SWOCTEM GmbH and its affiliated companies are therefore also considered to be related companies within the meaning of IAS 24. In the reporting year, the Group supplied this group of companies with goods to the value of €3,092 thousand and purchased services to the value of €6 thousand. All transactions took place at arm's length. There were receivables totaling €115 thousand as of the reporting date.

(33) Notes to the consolidated statement of cash flows

The consolidated statement of cash flows is presented in accordance with IAS 7 (Statement of Cash Flows). It is of central importance in assessing the cash flows of the Klöckner & Co Group.

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

Cash and cash equivalents (including €38 million short-term deposits) came to €173 million at the year-end 2020 (2019: €183 million).

Cash flow from operating activities
Cash flow from operating activities was €161 million in the fiscal year (2019: €204 million). The main drivers of cash flow from operating activities are operating income (EBITDA) and changes in net working capital. Net working capital increased, net of foreign currency exchange effects and changes in the scope of consolidation, as follows:

	Variance	
(€ thousand)	2020/2019	2019/2018
Inventories	– 155,599	– 214,552
Trade receivables	– 40,179	– 165,521
Contract assets	– 2,562	22,891
Commissions, discounts and rebate receivables	– 19,098	– 1,380
Trade payables	100,655	181,083
Net working capital	**– 116,783**	**– 177,479**

Cash flow from investing activities
Cash outflows of €81 million from capital expenditure on property, plant and equipment and intangible assets were offset by a total of €19 million in cash inflows from disposal of property, plant and equipment and financial assets. The net outcome was a cash outflow of €62 million (2019: net cash inflow of €3 million).

Cash flow from financing activities
Cash flow from financing activities was a negative €104 million (2019: negative €169 million) and includes a €1 million cash outflow for dividend payments to non-controlling shareholders of Klöckner & Co SE and lease liability repayments according to IFRS 16 of €46 million.

The Klöckner & Co Group's business activities constantly generate short-term cash inflows. These are generally used within one month to repay working capital facilities.

Financial liabilities changed as follows:

(€ thousand)	Bonds	Liabilities to bank	Liabilities under ABS program	Finance lease liabilities	Total
Balance as of January 1, 2019	**137,080**	**75,651**	**281,759**	**26,095**	**520,585**
Changes from financing cash flows					
Borrowings	1,151	493	3,431	-	5,075
Repayment of financial liabilities	– 901	– 37,964	– 51,682	– 46,243	– 136,790
Changes from financing cash flows	**250**	**– 37,471**	**– 48,251**	**– 46,243**	**– 131,715**
The effect of changes in foreign exchange rates	-	1,118	5,789	3,994	10,901
Change in fair value	-			198,999	198,999
Other changes liability-related					
Changes in bank overdraft	-	562	-	-	562
New leases				22,070	22,070
Interest expense	6,929	13,655	10,809	5,002	36,395
Interest paid	– 2,956	– 14,327	– 10,809	– 5,002	– 33,094
Total liability-related other changes	**3,973**	**– 110**	**-**	**22,070**	**25,933**
Balance as of December 31, 2019	141,303	39,188	239,297	204,915	624,703
Balance as of January 1, 2020	**141,303**	**39,188**	**239,297**	**204,915**	**624,703**
Changes from financing cash flows					
Borrowings	1	59,626	-	-	59,627
Repayment of financial liabilities	-	– 11,081	– 124,058	– 45,668	– 180,807
Changes from financing cash flows	**1**	**48,545**	**– 124,058**	**– 45,668**	**– 121,180**
The effect of changes in foreign exchange rates	-	– 3,758	– 3,943	– 6,699	– 14,400
Other changes liability-related					
Changes in bank overdraft	-	– 101	-	-	– 101
New leases	-	-	-	31,156	31,156
Early terminated leases				– 4,188	– 4,188
Interest expense	7,519	10,739	5,342	4,625	28,225
Interest paid	– 2,956	– 10,637	– 5,342	– 4,625	– 23,560
Total liability-related other changes	**4,563**	**1**	**-**	**26,968**	**31,532**
Balance as of December 31, 2020	**145,867**	**83,976**	**111,296**	**179,516**	**520,655**

(34) Segment reporting

Reporting of operating segments in accordance with IFRS 8 is based on the internal organization and reporting structure. The Klöckner & Co Group is organized by regions. The reporting structure covers all companies domiciled in these regions. Central functions not assigned to a segment and consolidation adjustments are reported separately.

In accordance with the management approach, the Brazilian distribution business and the metering business (both of minor importance for the Group's results of operations, financial position and net assets), which were included in the Holding and other Group companies segment in the prior year, were assigned to the Kloeckner Metals US and Kloeckner Metals Distribution Europe segments respectively. The prior-year figures were adjusted accordingly.

The segments use the same accounting policies as described in Note 5 (Significant accounting policies), except in the case of intra-Group transactions (especially profit distributions and impairments on consolidated affiliated companies), which are eliminated within the individual segments.

(€ million)	Kloeckner Metals US 2020	Kloeckner Metals US 2019	Kloeckner Metals Switzerland 2020	Kloeckner Metals Switzerland 2019	Kloeckner Metals Services Europe 2020	Kloeckner Metals Services Europe 2019	Kloeckner Metals Distribution Europe 2020	Kloeckner Metals Distribution Europe 2019
Shipments (Tto)	2,339,226	2,659,795	542,286	574,445	814,344	948,236	1,176,944	1,465,870
External sales	2,076,136	2,658,688	914,112	971,006	607,015	749,186	1,532,721	1,935,547
Sales from other segments	-	-	62	23	11,930	19,063	812	903
Gross profit	373,786	414,998	267,585	269,521	83,559	99,640	322,167	372,328
Gross profit margin (%)	17.9	15.6	29.3	27.8	13.8	13.3	21.0	19.2
Segment result (EBITDA)	44,632	45,584	61,797	62,388	13,245	25,824	– 40,509	37,712
Income from participation	-	-	-	-	-	-	-	-
Earnings before interest and taxes (EBIT)	– 13,164	– 7,220	30,567	30,667	6,610	19,095	– 84,129	– 1,293
Restructuring expenses	– 5,011	-	-	-	– 6,166	-	– 47,383	– 19,449
Profit and losses from asset disposal	-57	-141	663	6,873	18	– 14	1,721	40,797
Scheduled depreciation on intangible assets and property, plant and equipment	– 50,941	– 51,631	– 31,231	– 31,721	– 6,634	– 6,729	– 36,452	– 36,067
Impairments on intangible assets and property, plant and equipment	– 6,856	– 1,172	-	-	-	-	– 7,168	– 2,939
Income taxes	12,515	4,997	– 4,062	– 3,576	-	-	858	– 1,957
Other non-cash income/expenses	-	-	42	27	-	-	371	26
Capital expenditure for intangible assets, property, plant and equipment and financial investments	18,325	12,080	20,071	15,682	4,958	3,843	31,036	11,921
Cash flow from operating activities	84,620	69,892	61,679	68,097	29,041	53,917	10,084	30,010

(€ million)	Kloeckner Metals US Dec. 31, 2020	Kloeckner Metals US Dec. 31, 2019	Kloeckner Metals Switzerland Dec. 31, 2020	Kloeckner Metals Switzerland Dec. 31, 2019	Kloeckner Metals Services Europe Dec. 31, 2020	Kloeckner Metals Services Europe Dec. 31, 2019	Kloeckner Metals Distribution Europe Dec. 31, 2020	Kloeckner Metals Distribution Europe Dec. 31, 2019
Net working capital	337,937	428,830	208,643	219,472	151,142	160,854	284,484	322,611
Employees at year-end (headcount)	2,120	2,452	1,554	1,626	539	588	2,829	3,373

Holding and other group companies		Consolidation		Total	
2020	2019	2020	2019	2020	2019
-	-	-	-	4,872,800	5,648,346
121	292	-	-	5,130,106	6,314,719
222	21,580	– 13,026	– 41,569	-	-
133	239	-	-	1,047,229	1,156,725
109.5	82.3	-	-	20.4	18.3
– 26,727	– 32,480	-	-	52,438	139,028
300	-	-	-	300	-
– 33,226	– 39,519	-	-	– 93,342	1,730
-	– 8,000	-	-	– 58,560	– 27,449
– 9	– 233	-	-	2,336	47,283
– 6,499	– 7,039	-	-	– 131,757	– 133,187
-	-	-	-	– 14,024	– 4,111
150	– 15,312	-	-	9,462	– 15,848
– 304	85	-	-	109	138
7,000	5,537	-	-	81,390	49,064
– 24,317	– 17,805	– 124	122	160,983	204,234

Holding and other group companies		Consolidation		Total	
Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
– 15,254	– 13,105	-	-	966,951	1,118,662
232	214	-	-	7,274	8,253

Earnings before interest and taxes (EBIT) can be reconciled to consolidated income before taxes as follows:

(€ thousand)	2020	2019
Earnings before interest and taxes (EBIT)	– 93,342	1,730
Financial result	– 30,483	– 40,758
Income before taxes	**– 123,825**	**– 39,028**

EBITDA, as a key performance indicator, is defined as earnings before interest, taxes, depreciation, amortization, impairments and reversals of impairments of intangible assets and property, plant and equipment.

Net working capital comprises inventories and trade receivables, including contract assets and supplier bonus receivables, less trade payables.

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

Non-current assets by countries
Intangible assets, property, plant and equipment and non-current financial assets are broken down by regions as follows:

(€ thousand)	2020	2019
USA	248,846	314,348
Switzerland	296,039	298,792
Germany	168,641	177,473
France	64,363	70,384
United Kingdom	56,406	47,704
The Netherlands	19,617	23,702
Other regions	18,391	14,953
Total	**872,303**	**947,356**

(35) Subsequent events

The sale of a site in Germany was completed in January 2021. The transaction generated a book gain of €10 million.

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

The auditor of the individual and consolidated financial statements of Klöckner & Co SE is KPMG AG, Wirtschaftsprüfungsgesellschaft, Berlin. The audit opinion is signed by Wirtschaftsprüfer Christoph Velder (from fiscal year 2018) and Wirtschaftsprüfer Ulrich Keisers (from fiscal year 2016).

The following fees were incurred for services performed by the auditor KPMG AG, Wirtschaftsprüfungsgesellschaft, Berlin, in the fiscal year:

(€ thousand)	2020	2019
Audit of financial statements	763	842
Other assurance services	148	20
Tax advisory services	4	7
Other services	4	231
	919	**1,100**

The fees for the audit of financial statements mainly relate to the audit of the consolidated financial statements in accordance with IFRS and the audits performed by the auditors of the separate financial statements of the consolidated companies and the review of the half-year financial report.

The fees for other assurance services relate to project-related audits of parts of the accounting-related internal control system and other statutory or contractual audits.

The fees for tax consulting services relate to individual case consulting and ongoing consulting in connection with tax returns and advice on other national and international tax issues.

(37) Declaration of Conformity with the German Corporate Governance Code in accordance with Section 161 of the German Stock Corporation Act (AktG)

The Management Board and the Supervisory Board submitted the Declaration of Conformity in accordance with Section 161 AktG on December 14, 2020 and made it permanently publicly available to shareholders on the Klöckner & Co SE website.

Duisburg, February 25, 2021

Klöckner & Co SE
MANAGEMENT BOARD

Gisbert Rühl
CHAIRMAN OF THE MANAGEMENT BOARD
(CEO)

Guido Kerkhoff
MEMBER OF THE MANAGEMENT BOARD
(DEPUTY CHAIRMAN OF THE MANAGEMENT BOARD)

Dr. Oliver Falk
MEMBER OF THE MANAGEMENT BOARD
(CFO)

John Ganem
MEMBER OF THE MANAGEMENT BOARD
(CEO AMERICAS)

Independent Auditor's Report

To Klöckner & Co SE, Duisburg, Germany

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Opinions

We have audited the consolidated financial statements of Klöckner & Co SE, Duisburg, Germany, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statement of income, the statement of comprehensive income, consolidated statement of cash flows and the summary of changes in consolidated equity for the fiscal year from January 1 to December 31, 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report (hereinafter: "Group management report") of the Company for the fiscal year from January 1 to December 31, 2020. In accordance with the German legal requirements we have not audited the content of the corporate governance statement which is included in the "Corporate Governance" section of the Group management report.

In our opinion, on the basis of the knowledge obtained in the audit,

– the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December, 2020, and of its financial performance for the fiscal year from 1 January to 31 December, 2020, and

– the accompanying Group management report as a whole provides an appropriate view of the Group's position. In all material respects, this Group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the Group management report does not cover the content of the corporate governance statement mentioned above.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the Group management report.

Basis for the opinions
We conducted our audit of the consolidated financial statements and of the Group management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). We performed the audit of the consolidated financial statements in supplementary compliance with the International Standards on Auditing (ISAs). Our responsibilities under those requirements, principles and standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the Group management report.

Key audit matters for audit of consolidated financial statements
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from January 1, 2020 to December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters.

Impairment test of individual non-current assets or a group of non-current assets (without goodwill)
For the accounting policies applied, please refer to section (5) in the notes to the consolidated financial statements of Klöckner & Co SE. Further disclosures on impairment testing can be found in section (15) of the notes to the consolidated financial statements. Reporting on risks and opportunities can be found in Section "6.3 Risks and Opportunities" in the Group management report.

FINANCIAL STATEMENT RISK
Klöckner recognizes intangible assets of EUR 109.1 million in the consolidated statement of financial position as at 31 December 2020; thereof EUR 78.3 million for intangible assets (without goodwill) and EUR 743.8 million for property, plant and equipment. At 33% of total assets, this represents a significant proportion of the assets of the Company.

As at 31 December 2020 impairment losses totaling EUR 14.0 million were recognized on intangible assets and property, plant and equipment.

Impairment testing of non-current assets is conducted at the level of the cash-generating units. Any identified impairment loss has to be allocated to the individual assets. In this regard, the carrying amount of an individual asset may not be impaired below its fair value less cost of disposal (minimum carrying amount). Klöckner made use of appraisals by external experts as well as external sources for ground values to derive the minimum carrying amounts needed for allocating any identified impairment loss on the individual assets.

The impairment testing of individual cash-generating units, the allocation of an identified impairment loss to the individual assets as well as the derivation of the minimum carrying amount are complex and largely dependent on the estimate of the Management Board and thus subject to considerable uncertainty.

Estimates on the timing and amount of future expected cash inflows and outflows relevant for measurement as well as the discount rates used for the derivation of the recoverable amount of cash-generating units are subject to uncertainty and thus require judgment.

In determining the minimum carrying amount of the individual assets, estimates must be made for the significant measurement parameters, such as indexation, depreciation, total useful life, deductions for technical obsolescence, costs to sell and obsolescence of property, plant and equipment, market leasing payments as well as the location, usability and condition of land and buildings.

The financial statement risk is that an impairment need may not be identified, that an identified impairment need was not allocated to the individual assets, or not to the extent necessary and thus the Group's assets are overstated. There is also the risk that the related disclosures in the notes are not appropriate.

OUR RESPONSE

By involving our valuation specialists, we assessed, among others, the appropriateness of the significant assumptions and parameters, the calculation methods for the recoverable amount of the cash-generating unit as well as the minimum carrying amount of the individual assets of the Company. Our audit procedures included, among others, an audit of whether the cash inflows and outflows used to derive the value in use of the cash-generating units were appropriate. We evaluated the business plan taking into account market data and publically available industry and analyst reports. In addition, we evaluated the appropriateness of the budget figures and the underlying assumptions of individual cash-generating units in the corporate planning.

For the assessment of assumptions and parameters underlying the discount rates, we analyzed the peer group used to derive the beta coefficient and also verified the risk-free interest rate and market risk premium derived from data provided by relevant central banks on yield curves as well as information from the German Institute of Public Auditors [IDW] for deriving the risk-free interest rate and market risk premium.

Where a potential impairment loss was identified for a cash-generating unit, Klöckner engaged external experts to derive the minimum carrying amounts for the individual assets. We verified the expertise and objectivity of the external experts and conducted a substantive audit of the external experts' determination of the minimum carrying amounts for the individual assets. Thereby, we first ensured that all assets of the cash-generating units to be audited were fully included in the valuation. In the following step, we assessed whether the valuation methods used to derive the minimum carrying amounts were properly applied. In this context, we also verified whether the above-mentioned significant measurement assumptions and parameters were properly and reasonably applied.

Finally, on the basis of a partially risk-oriented and partially random selection of assets, we examined the accuracy of calculations used in the valuation models to derive the recoverable amount of the cash-generating units or the individual assets and the minimum carrying amount of the individual assets.

We also assessed whether the resulting impairment loss was accurately recognized in the financial statements.

Finally, we evaluated if the information provided in the notes to the consolidated financial statements on impairment testing are appropriate.

OUR OBSERVATIONS

The underlying calculation method used for impairment testing and for the minimum carrying amount is appropriate and in line with the accounting policies to be applied. The assumptions and parameters used for measurement are appropriate and balanced overall.

The required disclosures in the notes are appropriate.

Other Information

Management and the Supervisory Board are responsible for the other information. The other information comprises the following parts of the Group management report, which have not been audited:

- the corporate governance statement and
- disclosures in the Group management report that are not normally part of the management report and are marked as unaudited

The other information additionally comprises:

- the separate non-financial report published together with the Group management report, and
- the remaining parts of the annual report

The other information does not include the consolidated financial statements, the audited disclosures in the Group management report and our related auditor's reports

Our opinions on the consolidated financial statements and on the Group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the Group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the management board and the supervisory board for the consolidated financial statements and the group management report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the Group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a Group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the Group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the Group management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the Group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the Group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) and supplementary compliance with the ISAs will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this Group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the consolidated financial statements and of the Group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control system relevant to the audit of the consolidated financial statements and of arrangements and measures relevant to the audit of the Group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the Group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the net assets and financial position as well as the results of operations of the Group in accordance with IFRS as adopted by the EU and the supplementary requirements of German commercial law pursuant to Section 315e (1) HGB
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the Group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the Group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by management in the Group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Report on assurance in accordance with Section 317 (3b) HGB on the electronic reproduction of the consolidated financial statements and the Group management report prepared for publication purposes
We have performed assurance work in accordance with Section 317 (3b) HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the Group management report (hereinafter the "ESEF documents") contained in the file that can be downloaded by the issuer from the electronic client portal with access protection, „kloecknercose.zip" (SHA256-hash value: fdea2c6c215a124a55d158822e808aacd643b700d7cf42fc28e8918299575c80) and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the consolidated financial statements and the Group management report into the ESEF format and therefore relates neither to the information contained in this reproduction nor any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the Group management report contained in the above-mentioned electronic file and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the above-mentioned file beyond this reasonable assurance opinion and our audit opinion on the accompanying annual financial statements and the accompanying management report for the fiscal year from January 1, 2020 to December 31, 2020 contained in the "Report on the Audit of the Consolidated Financial Statements and of the Group management report" above.

We conducted our assurance work of the reproduction of the consolidated financial statements and the Group management report contained in the above-mentioned electronic file in accordance with Section 317 (3b) HGB and the Exposure Draft of the IDW Assurance Standard: Assurance in accordance with Section 317 (3b) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410) and the International Standard on Assurance Engagements 3000 (Revised). Accordingly, our responsibilities are further described below. Our audit firm has applied the IDW Standard on Quality Management: Requirements for Quality Management in Audit Firms (IDW QS 1).

The Company's management is responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the Group management report in accordance with Section 328 (1) sentence 4 item 1 HGB and for marking up the consolidated financial statements in accordance with Section 328 (1) sentence 4 item 2 HGB.

In addition, the Company's management is responsible for the internal controls they consider necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB for the electronic reporting format.

The Company's management is also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited consolidated financial statements and audited Group management report as well as other documents to be published to the operator of the German Federal Gazette [Bundesanzeiger].

The Supervisory Board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB. We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assessment of the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e. whether the electronic file containing the ESEF documents meets the requirements of Commission Delegated Regulation (EU) 2019/815 on the technical specification for this electronic file.
- Evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited annual financial statements and the audited management report.
- Evaluate whether marking up of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and full machine-readable XBRL copy of the XHTML reproduction.

Further information pursuant to Article 10 of the EU Audit Regulation
We were elected as group auditor by the annual general meeting on May 20, 2020. We were engaged by the Supervisory Board on June 22, 2020. We have been the group auditor of Klöckner & Co SE without interruption since fiscal year 2006.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Christoph Velder.

Düsseldorf, February 25, 2021

KPMG AG
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

signed Velder
WIRTSCHAFTSPRÜFER

signed Keisers
WIRTSCHAFTSPRÜFER

Declaration of the Management Board

Statement by the Management Board on the consolidated financial statements and the Group management report

To the best of our knowledge, and in accordance with International Financial Reporting Standards (IFRS), the consolidated financial statements give a true and fair view of the results of operations, financial position and net assets of the Group, and the Group management report, which has been combined with the management report for the Company, 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 25, 2021

Klöckner & Co SE
The Management Board

Gisbert Rühl
CHAIRMAN OF THE MANAGEMENT BOARD
(CEO)

Guido Kerkhoff
MEMBER OF THE MANAGEMENT BOARD
(DEPUTY CHAIRMAN OF THE MANAGEMENT BOARD)

Dr. Oliver Falk
MEMBER OF THE MANAGEMENT BOARD
(CFO)

John Ganem
MEMBER OF THE MANAGEMENT BOARD
(CEO AMERICAS)

INDIVIDUAL FINANCIAL STATEMENTS

Individual financial statements

Statement of income

for the 12-month period ending December 31, 2020

(€ thousand)	2020	2019
Sales	14,023	17,049
Other operating income	58,837	3,632
Cost of purchased services	– 9,273	– 10,523
Personnel expenses	– 21,582	– 29,754
Depreciation of intangible assets and property, plant and equipment	– 687	– 708
Other operating expenses	– 13,183	– 15,359
Income from participations	24,609	17,859
Income from profit transfer agreements	15,798	16,316
Income from long-term loans	10,465	13,648
Other interest and similar income	4,663	6,190
Impairment of investments	– 41,048	– 82,525
Expenses from loss transfer agreements	– 34,605	– 25,444
Interest and similar expenses	– 14,554	– 17,802
Result before taxes	**– 6,537**	**– 107,421**
Income taxes	206	69
Net loss	**– 6,331**	**– 107,352**
Unappropriated profits carried forward	-	29,925
Withdrawals from capital reserves	6,331	107,352
Dividends	-	– 29,925
Unappropriated profits	**-**	**-**

Balance sheet

as of December 31, 2020

ASSETS

(€ thousand)	December 31, 2020	December 31, 2019
Intangible assets	408	562
Property, plant and equipment	1,831	2,336
Non-current investments	1,177,506	1,083,813
Fixed assets	**1,179,745**	**1,086,711**
Trade receivables	2	13
Receivables from affiliated companies	126,052	214,973
Other assets	2,896	2,966
Cash and cash equivalents	87,530	55,860
Current assets	**216,480**	**273,812**
Prepaid expenses	4,538	8,164
Total assets	**1,400,763**	**1,368,687**

EQUITY AND LIABILITIES

(€ thousand)	December 31, 2020	December 31, 2019
Equity		
Subscribed capital	249,375	249,375
Capital reserves	585,776	592,107
Other revenue reserves	257,506	257,506
Unappropriated profits	-	-
Equity	**1,092,657**	**1,098,988**
Provisions for pensions and similar obligations	95,052	96,153
Provisions for taxes	186	651
Other provisions	12,306	10,295
Bonds	147,800	147,800
Liabilities to banks	245	208
Trade payables	2,175	1,029
Liabilities to affiliated companies	49,904	12,785
Other liabilities	417	768
Deferred income	21	10
Total equity and liabilities	**1,400,763**	**1,368,687**

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

as of December 31, 2020 (annex to the Notes)

	Intangible assets	Property, plant and equipment			Non-current investments			Fixed assets
(€ thousand)	Software	Buildings	Other equipment, operating and office equipment	Prepay-ments	Invest-ments in affiliated companies	Loans to affiliated companies	Invest-ments	Total
Cost as of December 31, 2019	1,581	1,783	2,059	8	1,207,513	178,496	7	1,391,447
Accumulated amortization and depreciation	– 1,019	– 423	– 1,091	-	– 302,203	-	-	– 304,736
Book value as of Dec. 31, 2019	**562**	**1,360**	**968**	**8**	**905,310**	**178,496**	**7**	**1,086,711**
Additions	-	-	28	-	96,281	-	-	96,309
Attribution	-	-	-	-	53,803	-	-	53,803
Disposals	-	-	-	-	-	– 15,336	– 7	– 15,343
Transfers	-	8	-	– 8	-	-	-	-
Current year amortization and depreciation	– 154	– 248	– 285	-	– 41,048	-	-	– 41,735
Book value as of Dec. 31, 2020	**408**	**1,120**	**711**	**-**	**1,014,346**	**163,160**	**-**	**1,179,745**
Costs as of December 31, 2020	1,581	1,791	1,753	-	1,303,794	163,160	-	1,472,079
Accumulated amortization and depreciation	– 1,173	– 671	– 1,042	-	– 289,448	-	-	– 292,334

Notes to the financial statements

for the 12-month period ending December 31, 2020

General information

Klöckner & Co SE is the parent company of the Klöckner & Co Group and is domiciled in Duisburg. It is entered in the commercial register of Duisburg Local Court under HRB 20486. The Klöckner & Co Group is one of the largest producer-independent steel and metal distributors and one of the leading steel service center companies worldwide.

Klöckner & Co SE is in charge of operating management of the Klöckner & Co Group. It directly holds the ownership interests in most management companies heading the Group's national and international country organizations, as well as in individual country operating companies themselves.

Since the initial public offering on June 28, 2006, Klöckner & Co SE's shares have been listed on the Frankfurt Stock Exchange's Regulated Market (Prime Standard).

The annual financial statements and the consolidated financial statements are published in the Federal Gazette [Bundesanzeiger].

Accounting policies

The financial statements for the fiscal year January 1 to December 31, 2020 are prepared in accordance with the stipulations applying for large corporations in the German Commercial Code (HGB) and in accordance with the German Stock Corporation Act (AktG).

Klöckner & Co SE prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The presentation of the financial statements is in accordance with Sections 266–277 HGB.

Assets
Acquired intangible assets and property, plant and equipment are normally carried at cost less accumulated amortization and depreciation recognized in accordance with commercial law. The option of recognizing self-generated intangible assets is not used. Moveable depreciable assets are depreciated on a straight-line basis. Minor assets are expensed in the year of purchase or production. If the attributable value of a depreciable asset is diminished as of the reporting date, a writedown for impairment is recognized. Other operating and office equipment is depreciated over between three and 13 years.

Financial assets are accounted for at cost of purchase and in case of other-than-temporary impairment at their lower attributable cost. For material investments in affiliated companies, attributable value is determined using the income approach. The cash flows used in the income approach are based on budgets for each affiliate for the next three years, extrapolated using long-term growth rate assumptions. They are discounted at a discount rate derived from the yield on a risk-equivalent alternative investment.

Receivables and other assets are normally measured at cost. Specific valuation allowances are established to account for identifiable risks. Foreign currency receivables are translated at the midpoint spot rate at the reporting date. Section 253 (1) sentence 1 and Section 252 (1) 4 HGB are not applied if the remaining maturity is less than one year.

Equity and liabilities

Provisions for pensions are measured using the projected unit credit method (analogous to IAS 19). In accordance with the requirements under the Accounting Law Modernization Act (BilMoG), the parameters for valuation were 2.5% (2019: 2.5%) for salary increases and 1.75% (2019: 1.75%) for pension increases. The biometric parameters are based on the Prof. Dr. Klaus Heubeck 2018 G tables (2019: Prof. Dr. Klaus Heubeck 2018 G tables). The obligation is discounted at the average market rate based on an assumed remaining maturity of 15 years as regularly published by the German Bundesbank. Ten years are assumed for calculation of the average discount rate. At the reporting date, this is 2.31% (2019: 2.72%). Ring-fenced assets that exclusively serve the purpose of meeting pension obligations are offset against the corresponding liability.

Other provisions account for all identifiable obligations and emerging risks. They are recognized at their settlement amount estimated with the due care and diligence of a prudent businessman. Provisions with a remaining maturity of more than one year are discounted to the reporting date. The discount rate is the past seven-year average market interest rate for congruent maturities as published by the German Bundesbank.

Liabilities are normally stated at their settlement amount. Foreign currency liabilities with a remaining maturity of up to one year are normally translated at the midpoint spot rate at the reporting date. Foreign currency liabilities with longer maturities are translated at the invoice date exchange rate or, if higher, the midpoint spot rate at the reporting date.

Derivative financial instruments are accounted for at fair value, determined on the basis of banks' quoted prices or by quantitative finance methods using standard banking models. Where market prices exist, these correspond to the price a third party would pay for the rights or obligations arising from the financial instruments. The fair values are the market values of the derivative financial instruments, irrespective of any offsetting changes in the value of hedged items. Positive fair values are presented in other assets and negative fair values in other liabilities.

In accordance with Section 254 HGB, financial instruments that match the volume and timing of risks on a hedged item are accounted for in a unit with the hedged item. Under application of the net hedge presentation method, they are estimated according to the value on the date of issue. Changes in value in respect of the hedged risk are not recognized on the balance sheet or in the statement of income.

Statement of income
The income statement is prepared using the nature of expense method of analysis (Section 275 (2) HGB).

Expense from the unwinding of the discount on pension obligations is accounted for in net interest income.

Fixed assets

Changes in fixed assets in the reporting year are presented in the movement schedule.

Additions to intangible assets relate in their entirety to purchased software.

In the reporting year, to strengthen the equity base of our subsidiary Kloeckner Metals France Holding S.A.S, Aubervilliers, France, a €54 million capital increase was carried out, on which a €14 million impairment loss was recognized against the fair value of €40 million.

A €27 million capital increase was carried out to improve equity capitalization at Kloeckner Metals UK Holdings Limited, Leeds, United Kingdom. Due to the company's limited profitability, the amount was written off in full.

A €15 million capital increase was also carried out at XOM Materials GmbH, Berlin, Germany.

In addition, the increase in financial assets reflects the reversal, in the amount of €33 million, of impairment losses recognized in the past on the carrying amount of the investment in Klöckner & Co Deutschland GmbH, Duisburg, Germany. The reversal reflects considerably improved earnings prospects as a result of the Surtsey project. Similarly, there was a €21 million reversal of the (€35 million) prior-year impairment loss on the carrying amount of the investment in Klöckner Netherlands Holding B.V., Amsterdam, the Netherlands.

A listing of all equity investments is presented in the appendix.

Receivables and other assets

(€ thousand)	2020	2019
Trade receivables	2	13
Receivables from affiliated companies	126,052	214,973
Other assets	2,896	2,966
	128,950	**217,952**

Receivables from affiliated companies relate to European cash pooling, profit transfer agreements, financial services, clearing and short-term loans.

All receivables have a maturity of less than one year.

Other assets totaling €2,687 thousand (2019: €2,883 thousand) have a remaining maturity of more than one year and mainly relate to non-pledged pension liability insurance.

Prepaid expenses

In connection with the 2016 Convertible Bond, a discount of €18,434 thousand was initially recognized as prepaid expenses to be amortized to interest expense over the five-year minimum maturity period. The amount recognized as interest expense in fiscal year 2020 was €3,687 thousand (2019: €3,687 thousand). As of December 31, 2020, the discount was accounted for at €2,458 thousand (2019: €6,145 thousand).

Equity

The Company's share capital is €249,375,000, as in the prior year, and is divided into 99,750,000 shares. Each share notionally corresponds to €2.50 of the share capital.

By Annual General Meeting resolution of May 12, 2017, the Management Board is authorized to acquire, by or before May 11, 2022, treasury stock of up to 10% of the Company's share capital in issue at the time of adoption of the resolution by the Annual General Meeting on May 12, 2017 or, if lower, the Company's share capital in issue at the time of exercise of the authorization. The Management Board was additionally authorized to acquire treasury stock using derivatives (put options, call options or other forward contracts). The authorization may be utilized in whole or in part, on one or more occasions, by the Company, by Group companies or by third parties acting on the Company's account or on the account of Group companies. The authorization may be used for any legally permissible purpose. Trading with treasury stock is prohibited. No use has been made of the authorization so far.

The loss of €6,331 thousand in the fiscal year under review was offset by the withdrawal of an equal amount from capital reserves.Revenue reserves are not subject to any restriction on distribution to shareholders within the meaning of Section 268 (8) HGB. The amount resulting from the change in the discount rate for retirement benefit obligations that is not allowed to be distributed to shareholders under Section 253 (6) HGB is €11,340 thousand (2019: €11,577 thousand).

Provisions for pensions and similar obligations

Pension obligations as of December 31, 2020 were €122,338 thousand (2019: €122,041 thousand).

The amount resulting from the change in the average interest rate that is not allowed to be distributed to shareholders in accordance with Section 253 HGB was €11,340 thousand as of December 31, 2020.

Plan assets consist entirely of pension liability insurance whose cost and fair values are identical. They are measured at the asset value of the pension liability insurance and amount to €27,286 thousand (2019: €25,888 thousand). Within the reported amount of pension provisions, plan assets at fair value are offset against pension obligations.

Expense from the unwinding of the discount on pension obligations in the amount of €3,219 thousand (2019: €3,608 thousand) is offset against returns on plan assets in the amount of €414 thousand (2019: €452 thousand).

Other provisions

Other provisions consist of:

(€ thousand)	2020	2019
Personnel expenses	8,761	7,795
Outstanding invoices	2,902	1,713
Miscellaneous other provisions	643	787
	12,306	**10,295**

The increase in personnel-related provisions mainly relates to the increase in provisions for performance-based remuneration, including the virtual stock option program, and in the opposite direction a decrease in provisions for termination benefits granted in redundancy programs in the reporting year.

The increase in provisions for pending purchase invoices relates to rent and utility cost settlements.

Liabilities

(€ thousand)	December 31, 2020 up to 1 year	December 31, 2020 1-5 years	December 31, 2020 Total	December 31, 2019 up to 1 year	December 31, 2019 1-5 years	December 31, 2019 Total
Bonds	147,800	-	147,800	-	147,800	147,800
Liabilities to banks	245	-	245	208	-	208
Trade payables	2,175	-	2,175	1,029	-	1,029
Liabilities to group companies	49,904	-	49,904	12,785	-	12,785
Miscellaneous liabilities	417	-	417	768	-	768
Liabilities	**200,541**	**-**	**200,541**	**14,790**	**147,800**	**162,590**

A €148 million convertible bond issue was launched in September 2016. The issuer is Klöckner & Co Financial Services S.A., a wholly-owned Luxembourg subsidiary. The bonds are guaranteed by Klöckner & Co SE and are convertible into new or existing shares in Klöckner & Co SE.

The bond issue is split into 1,478 bonds with a total of 10,480 thousand conversion rights as of December 31, 2020. The coupon on the bonds was set at 2.00% p.a. and the conversion price at 27.5% over the issue date reference price, corresponding to an initial conversion price of €14.82. In accordance with the bond terms, the conversion price was adjusted to €13.33 following dividend payouts. The bond has a seven-year term. Under the bond terms, holders can demand early redemption after five years at par value plus accrued interest (investor put option). The issuer does not have an early call option during the first five years. It does have such an option thereafter provided that, over certain stipulated periods, the market price of Klöckner & Co shares exceeds 130% of the conversion price.

Liabilities to banks include €245 thousand in interest payable on the syndicated loan. The liabilities under the syndicated credit facility, which was undrawn as of December 31, 2020, are uncollateralized.

Other liabilities include:

(€ thousand)	2020	2019
Tax liabilities	377	715
Social security contributions	-	12
Miscellaneous other liabilities	40	41
Other liabilities	**417**	**768**

Derivative financial instruments

The nominal values and fair values of the derivative financial instruments as of December 31, 2020 are as follows:

(€ million)	Nominal values	Fair values
Forward exchange transactions	185	0

Klöckner & Co SE manages central financing for the Klöckner & Co Group. Klöckner & Co SE is exposed to currency risk arising from the financial instruments. This arises from foreign currency loans that are granted to finance Group companies as part of central Group financing and are fully hedged. Derivative financial instruments are entered into for this purpose.

Derivative financial instruments used to hedge cash flow risks and matching hedged items can be accounted for as a unit if a clear hedging relationship is demonstrated. Such a hedging relationship exists in the form of microhedges for eight forward exchange contracts with a maximum maturity of three months. In these cases, the hedged items are recognized at the contractually agreed hedged rates and the derivative financial instruments are not recognized separately.

As a fundamental rule, Klöckner & Co SE only enters into derivative financial instruments that are in a hedging relationship with a hedged item. Changes in value and cash flows fully cancel each other out due to matching terms and parameters in the hedged item and the hedge.

The following methods are used to determine fair (market) value:

Currency hedges
The fair value of forward exchange contracts is calculated on the basis of the midpoint spot rate at the reporting date, taking into account forward premiums and discounts for the respective remaining maturity of the contract relative to the contracted forward rate. Counterparty risk is taken into account in discounting.

Commitments

Obligations fall due in the following year due to multiple-year tenancies and leases in the amount of €1,791 thousand (December 31, 2019: €1,849 thousand). The total amount of these obligations is €8,244 thousand (December 31, 2019: €10,092 thousand).

Sales

Sales consist of goods or services provided to subsidiaries and relate to the following:

(€ thousand)	2020	2019
Group services rendered	6,211	7,346
Service fees ABS program	5,195	7,229
Rental income	1,545	1,587
Insurance	699	366
Other income	373	521
Sales	**14,023**	**17,049**

Other operating income

Other operating income in the reporting year primarily includes €33 million in reversals of past impairment losses on the carrying amount of the investment in Klöckner & Co Deutschland GmbH, Duisburg, Germany, and €21 million in reversals of past impairment losses on the carrying amount of Klöckner Netherlands Holding B.V., Amsterdam, the Netherlands.

Other operating income in the reporting year does not contain any income attributable to prior periods (2019: €1,317 thousand).

Personnel expenses

(€ thousand)	2020	2019
Wages and salaries	16,218	20,039
Social security contributions	867	882
Retirement benefit cost	4,496	8,829
Welfare	1	4
	21,582	**29,754**

In 2019, wages and salaries included severance and redundancy payments as part of the restructuring measures.

Average number of employees over the year:

	2020	2019
Salaried employees	60	78
Wage earners	1	2
	61	**80**

The principles of the compensation system for the Management Board and the Supervisory Board are set out in detail with disclosures for individual members in the remuneration report, which is an integral part of the management report. The table below shows total compensation of members of the Management Board of Klöckner & Co SE – differing from the disclosures of compensation granted and allocated contained in the remuneration report – pursuant to the stipulations of German commercial law (prior-year figures in brackets):

(€ thousand)	Fixed components	Bonuses	Other remunerations	Total	Present value of benefit obligation	Change in benefit obligation
Gisbert Rühl (CEO)	1,090	1,904	41	3,035	13,385	2,192
	(1,023)	(1,746)	(41)	(2,810)	(11,193)	(2,911)
Guido Kerkhoff[1)]	250	431	89	770	-	-
	(-)	(-)	(-)	(-)	(-)	(-)
Dr. Oliver Falk (CFO)	420	705	67	1,192	1,899	214
	(175)	(287)	(28)	(490)	(1,685)	(239)
John Ganem	56	512	-	568	-	-
	(17)	(214)	(-)	(231)	(-)	(-)
Marcus A. Ketter (CFO)[2)]	-	-	-	-	-	-
	(180)	(310)	(68)	(558)	(-)	(-)
Jens M. Wegmann[3)]	-	-	-	-	-	-
	(280)	(420)	(32)	(732)	(-)	(-)
Total	**1,816**	**3,552**	**197**	**5,565**	**15,284**	**2,406**
	(1,675)	**(2,977)**	**(169)**	**(4,821)**	**(12,878)**	**(3,150)**

1) Guido Kerkhoff was appointed to the Management Board (as Deputy Chairman) effective September 1, 2020.
2) Marcus A. Ketter left as of May 15, 2019.
3) Jens M. Wegmann left as of July 31, 2019.

German Commercial Code (HGB)-basis pension provisions for former Management Board members amount to €5,449 thousand (2019: €5,118 thousand). Pension payments to former members of the Management Board in the reporting year amounted to €125 thousand (2019: €123 thousand).

Transactions with members of the Management Board are restricted in the reporting period to transactions in their capacity as members of the Management Board as set out above.

If a control threshold of 30% of voting rights is exceeded, the Chairman of the Management Board had the right in the reporting year to early termination of his contract. This right of termination was removed with effect from fiscal year 2021 in the course of a contract extension and amendment.

Other operating expenses

Remuneration for the Supervisory Board in fiscal year 2020 totaled €473 thousand (2019: €523 thousand).

The auditor of the individual and consolidated financial statements of Klöckner & Co SE is KPMG AG, Wirtschaftsprüfungsgesellschaft, Berlin, Germany. The audit opinion is signed by Wirtschaftsprüfer Christoph Velder (from fiscal year 2018) and Wirtschaftsprüfer Ulrich Keisers (from fiscal year 2016).

The following fees were incurred for services performed in the fiscal year by the auditor KPMG AG, Wirtschaftsprüfungsgesellschaft, Berlin, and are included in other operating expenses:

(€ thousand)	2020	2019
Audit of financial statements	577	654
Other assurance services	148	20
Tax advisory services	4	7
Other services	4	35
	733	**716**

The fees for the audit of financial statements mainly relate to the audit of the consolidated financial statements in accordance with IFRS and the audits performed by the auditors of the separate financial statements of the consolidated companies and the review of the half-year financial report.

The fees for other assurance services relate to project-related audits of parts of the accounting-related internal control system and other statutory or contractual audits.

The fees for tax consulting services relate to individual case consulting and ongoing consulting in connection with tax returns and advice on other national and international tax issues.

Other operating expenses of €11 thousand (2019: €103 thousand) relate to prior periods.

Income from investments

(€ thousand)	2020	2019
Income from participations	24,609	17,859
Income from profit transfer agreements	15,798	16,316
Expenses from loss transfer agreements	– 34,605	– 25,444
Income from investments	**5,802**	**8,731**

Income from participations relates to dividends from Debrunner Koenig Holding AG, St. Gallen, Switzerland.

The income from profit transfer agreements relates to agreements with Becker Besitz GmbH, Duisburg, Germany, and Klöckner Shared Services GmbH, Duisburg, Germany.

In the reporting year, the figure additionally included assumed losses from Klöckner & Co Deutschland GmbH, Duisburg, Germany, Becker Stahl-Service GmbH, Duisburg, Germany, Kloeckner Metals Operations GmbH, Duisburg, Germany, kloeckner.v GmbH, Berlin, Germany, and Kloeckner & Co USA Beteiligungs GmbH, Duisburg, Germany.

Financial result

(€ thousand)	2020	2019
Income from long-term loans		
– affiliated companies	10,465	13,648
Other interest and similar income		
– affiliated companies	4,626	6,185
– other interest and similar income	37	5
Interest and similar expenses		
– affiliated companies	– 3,723	– 3,409
– interest on provisions	– 2,776	– 3,092
– other interest and similar expenses	– 8,055	– 11,301
	574	**2,036**

Interest income from affiliated companies and income from long-term loans results from Group financing. The interest expense on provisions exclusively relates to pension provisions.

Taxes

Taxes exclusively relate to taxes on income and affect the result from ordinary activities in their full amount.

The determination of deferred taxes resulted in a net deferred tax asset. In accordance with Section 274 (1) sentence 2 HGB, the Company elected not to recognize the net deferred tax asset. The tax expense consequently does not contain any deferred taxes. The net deferred tax asset not recognized amounts to €34,295 thousand (2019: €29,762 thousand) comprising deductible temporary differences in the amount of €35,526 thousand (2019: €29,767 thousand) less taxable temporary differences in the amount of €1,231 thousand (2019: €5 thousand). There are additionally tax loss carryforwards for which deferred tax assets could in principle be recognized and which would increase the amount of the net deferred tax asset not recognized.

Deductible temporary differences primarily originate from provisions for pensions, guarantees and provisions for onerous contracts. Deferred taxes were determined on the basis of a combined tax rate of 31.8% (2019: 31.8%) for corporate income tax, solidarity surcharge and trade tax.

Contingent liabilities

The contingent liabilities of Klöckner & Co SE exclusively comprise guarantees in the amount of €9,127 thousand (2019: €8,937 thousand) relating to foreign Group company loans and to guarantees and credit support granted to secure the financing of affiliated companies.

To the best of our knowledge, all Group companies concerned are in a position to meet their obligations in their course of their activities. As such, we do not expect that the guarantees will be called in.

Subsequent events

No events that would require disclosure in the financial statements have occurred subsequent to the end of the reporting period.

Other disclosures

Information pursuant to Section 160 (1) No. 8 of the German Stock Corporation Act (AktG)
Pursuant to Article 61 of the SE Regulation in conjunction with Section 160 (1) No. 8 AktG, information must be provided on the existence of shareholdings notified to the Company pursuant to Section 33 (1) or 33 (2) of the Securities Trading Act (WpHG).

Notifications of shareholdings in Klöckner & Co SE provided to us under Sections 40, 33 WpHG (or predecessor legislation, as applicable) that still apply and have not become obsolete by later notification of a shortfall below a threshold are set out in the annex to these Notes. Any shortfall below a threshold during the course of the reporting year is shown in the table contained in the annex. The table also includes any notifications under Section 40 and 33 WpHG made beyond the reporting year up to 25. Februar 2021. In cases where an investor's shareholdings have multiply reached, exceeded or fallen below the aforementioned thresholds, in general only the most recent notification leading to a threshold being exceeded, fallen below or reached is stated. If notifications have been made under a prior version of WpHG, those are reflected as they have been notified with the applicable old version of the WpHG (WpHG o.v.) being mentioned accordingly. It is pointed out that the stated percentage shareholding and number of voting rights may be out of date.

The listing pursuant to Section 160 (1) 8 AktG is annexed to these Notes.

Governing bodies
A list of the members of the Management Board and the Supervisory Board is attached as an appendix.

Declaration of Conformity
The Management Board and the Supervisory Board submitted the Declaration of Conformity in accordance with Section 161 AktG on December 14, 2020 and made it permanently publicly available to shareholders on the Klöckner & Co SE website.

Duisburg, February 25, 2021

Klöckner & Co SE
MANAGEMENT BOARD

Gisbert Rühl
CHAIRMAN OF THE MANAGEMENT BOARD
(CEO)

Guido Kerkhoff
MEMBER OF THE MANAGEMENT BOARD
(DEPUTY CHAIRMAN OF THE MANAGEMENT BOARD)

Dr. Oliver Falk
MEMBER OF THE MANAGEMENT BOARD
(CFO)

John Ganem
MEMBER OF THE MANAGEMENT BOARD
(CEO AMERICAS)

Independent Auditor's Report

To Klöckner & Co SE, Duisburg, Germany

Report on the Audit of the Financial Statements and the Management Report

Opinions
We have audited the annual financial statements of Klöckner & Co SE, Duisburg, which comprise the balance sheet as at December 31, 2020, and the statement of income for the fiscal year from January 1 to December 31, 2020, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the combined management report (hereinafter "management report") of Klöckner & Co SE for the fiscal year from January 1 to December 31, 2020. In accordance with the German legal requirements we have not audited the parts of the management report referred to in the "Other Information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

– the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business coporations and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2020, and of its financial performance for the financial year from 1 January to 31 December 2020, in compliance with German Legally Reqired Accounting Principles, and

– the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the information in the management report referred to in the "Other Information" section.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as 'EU Audit Regulation') and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the fiscal year from January 1 to December 31, 2020. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Impairment of non-current investments

Please refer to the accounting policies described in the notes to the financial statements for more information on the accounting policies applied. Movements in non-current investments are presented in movements in intangible assets, property, plant and equipment and non-current investments.

FINANCIAL STATEMENT RISK

In the financial statements of Klöckner & Co SE as at December 31, 2020, the balance sheet item "non-current investments" includes investments in affiliated companies of EUR 1,014.3 million. Investments in affiliated companies amount to a 72% portion of total assets and thus have a material effect on the presentation of the Company's net assets.

Financial assets are recognized at cost or, if they are expected to be permanently impaired, at their lower fair value. The Company determines the fair value of investments in affiliated companies using the income approach.

The cash flows used for the income approach are based on budgets for each affiliate for the next three years, extrapolated based on assumptions for long-term growth rates. They are discounted at a discount rate derived from the yield on a risk-equivalent alternative investment.

In light of continually decreasing income forecasts, Klöckner & Co SE recognized impairments on investments in two affiliated companies by a total amount of EUR 41.1 million in the fiscal year. Impairment losses recognized in prior years on shares in two other affiliated companies were reversed by a total of EUR 53.8 million in the fiscal year due to significantly improved earnings prospects.

Impairment testing including the calculation of the fair value according to the capitalized earnings method is complex and, as regards the assumptions made, based largely on estimates and assessments of the Company. This applies particularly for estimates of future cash flows and the determination of the capitalization rate.

There is a risk for the financial statements that investments in affiliated companies are impaired.

OUR AUDIT APPROACH

First, we referred to explanations of the investment controlling department and assessed documentation to obtain an understanding of the Company's process for impairment testing of non-current investments that it holds. In doing this, we intensively analyzed the Company's approach to determining a need for impairment and, based on the information obtained in the course of our audit, assessed whether there were indications of a need for impairment that had not been identified by the Company.

We then carried out procedures including an evaluation of the methodical approach to conducting impairment testing and an assessment of the computational accuracy of the model. We involved our valuation experts in the process of auditing the budget assumptions, auditing the parameters used for discount rates, and to assess the appropriateness of the valuation model. To this end, we analyzed the peer group used for deriving the beta coefficient and also verified the risk-free interest rate and market risk premium derived from data provided by relevant central banks on yield curves for deriving the risk-free interest rate and market risk premium.

We discussed the expected cash flows and the assumed long-term growth rates with those responsible for planning and assessed whether the projections underlying the valuations were based on appropriate and reasonable assumptions. To do this, we obtained clarification from the Company on these assumptions and the impact of strategic and operating activities on the projections.

To the extent possible, we confirmed the quality of the Company's previous forecasts by comparing the budgets of previous fiscal years with actual results and by analyzing deviations. We also reconciled this information with internally available forecasts and with the budget prepared by the Management Board and approved by the Supervisory Board.

Finally, we discussed with the Management Board the measurements that had been established by Klöckner & Co SE and verified the accounting entry of the measurements derived from this.

OUR OBSERVATIONS

The approach used for impairment testing of non-current investments is appropriate and in line with the accounting policies. The assumptions and parameters used by the Company are appropriate.

Other information

Management and the Supervisory Board are responsible for the other information. The other information comprises the following parts of the management report, which have not been audited:

- the corporate governance statement and
- disclosures in the management report that are not normally part of the management report and are marked as unaudited.

The other information additionally comprises:

- the separate non-financial report published together with the management report, and
- the remaining parts of the annual report

The other information does not include the annual financial statements, the audited disclosures in the management report and our related auditor's reports.

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, the audited information in the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of management and the Supervisory Board for the financial statements and the management report

Management is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, management is responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, management is responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The Supervisory Board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's responsibilities for the audit of the annual financial statements and of the management report
Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements and the management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatements of the financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of an internal control relevant to the audit of the financial statements and of the arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Report on assurance in accordance with Section 317 (3b) HGB on the electronic reproduction of the annual financial statements and the management report prepared for publication purposes
We have performed assurance work in accordance with Section 317 (3b) HGB to obtain reasonable assurance about whether the reproduction of the annual financial statements and the management report (hereinafter the "ESEF documents") contained in the file that can be downloaded by the issuer from the electronic client portal with access protection, „kloecknercose.xhtml" (SHA256-Hash value: b26e9c70a1b374c0de9ead 01f2927b6aa12973b6a79f0db2693c05caafc706da) and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the annual financial statements and the management report into the ESEF format and therefore relates neither to the information contained in this reproduction nor any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the annual financial statements and the management report contained in the above-mentioned electronic file and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the above-mentioned file beyond this reasonable assurance opinion and our audit opinion on the accompanying annual financial statements and the accompanying management report for the fiscal year from January 1 to December 31, 2020 contained in the "Report on the Audit of the annual financial statements and of the management report" above.

We conducted our assurance work of the reproduction of the annual financial statements and the management report contained in the above-mentioned electronic file in accordance with Section 317 (3b) HGB and the Exposure Draft of the IDW Assurance Standard: Assurance in accordance with Section 317 (3b) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410) and the International Standard on Assurance Engagements 3000 (Revised). Accordingly, our responsibilities are further described below. Our audit firm has applied the IDW Standard on Quality Management: Requirements for Quality Management in Audit Firms (IDW QS 1).

The Company's management is responsible for the preparation of the ESEF documents including the electronic reproduction of the annual financial statements and the management report in accordance with Section 328 (1) sentence 4 item 1 HGB.

In addition, the Company's management is responsible for the internal controls they consider necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB for the electronic reporting format.

The Company's management is also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited annual financial statements and audited management report as well as other documents to be published to the operator of the German Federal Gazette [Bundesanzeiger].

The Supervisory Board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB. We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assessment of the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e. whether the electronic file containing the ESEF documents meets the requirements of Commission Delegated Regulation (EU) 2019/815 on the technical specification for this electronic file.
- Evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited annual financial statements and the audited management report.

Further information pursuant to Article 10 of the EU Audit Regulation
We were elected as auditor by the annual general meeting on May 20, 2020. We were engaged by the Supervisory Board on December 16, 2020. We have been the auditor of Klöckner & Co SE without interruption since fiscal year 2006.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Christoph Velder.

Düsseldorf, February 25, 2021

KPMG AG
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

signed Velder	signed Keisers
WIRTSCHAFTSPRÜFER	WIRTSCHAFTSPRÜFER

Declaration of the Management Board

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 results of operations, financial position and net assets of the Group, and the Group management report, which has been combined with the management report for the Company, 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 25, 2021

MANAGEMENT BOARD

Gisbert Rühl
CHAIRMAN OF THE MANAGEMENT BOARD
(CEO)

Guido Kerkhoff
MEMBER OF THE MANAGEMENT BOARD
(DEPUTY CHAIRMAN OF THE MANAGEMENT BOARD)

Dr. Oliver Falk
MEMBER OF THE MANAGEMENT BOARD
(CFO)

John Ganem
MEMBER OF THE MANAGEMENT BOARD
(CEO AMERICAS)

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	Kloeckner & Co USA Beteiligungs GmbH, Duisburg/Germany	100.00
3	Kloeckner Metals Operations GmbH, Duisburg/Germany	100.00
4	Klöckner & Co Financial Services S.A., Luxemburg/Luxemburg	100.00
5	Klöckner Shared Services GmbH, Duisburg/Germany	100.00
6	kloeckner.i GmbH, Berlin/Germany	100.00
7	kloeckner.v GmbH, Berlin/Germany	100.00
8	XOM Materials GmbH, Berlin/Germany	100.00
9	XOM Materials Operations Inc., Wilmington/Delaware/USA	100.00
10	Klöckner & Co Germany GmbH, Duisburg/Germany	100.00
11	Klöckner Stahl und Metall Ges.m.b.H., Wien/Austria	100.00
12	Kloeckner Metals Austria GmbH & Co KG, Wien/Austria	51.00
13	Klöckner Netherlands Holding B.V., Amsterdam/The Netherlands	100.00
14	Klöckner & Co Financial Services B.V., Rotterdam/The Netherlands	100.00
15	ODS B.V., Rotterdam/The Netherlands	100.00
16	O-D-S Transport B.V., Barendrecht/The Netherlands	100.00
17	ODS Metering Systems B.V., Rotterdam/The Netherlands	100.00
18	ODS Saudi Co. LLC, City of Dammam/Saudi Arabia	85.00
19	ODS Belgium B.V., Essen/Belgium	80.00
20	ODS Metering Systems Asia Pacific Pte. Ltd., Singapore/Singapore	100.00
21	ODS Middle East FZE, Dubai/UAE	100.00
22	ODS do Brasil Sistemas de Medicao Ltda., Campinas, State of Sao Paulo/Brazil	99.00
		1.00
23	Kloeckner Metals Belgium N.V., Harelbeke/Belgium	99.99
		0.01
24	Kloeckner Metals UK Holdings Limited, Leeds/United Kingdom	100.00
25	ASD Limited, Leeds/United Kingdom	100.00
26	ASD Westok Limited, Leeds/United Kingdom	100.00
27	Richardsons Westgarth Ltd., Leeds/United Kingdom	100.00
28	Armstrong Steel Ltd., Leeds/United Kingdom	100.00
29	Richardson Westgarth (Hartlepool) Limited, Leeds/United Kingdom	100.00
30	Kloeckner Metals France Holding S.A.S., Aubervilliers/France	99.58
31	Kloeckner Metals France S.A.S., Aubervilliers/France	100.00
32	Reynolds European S.A.S., Rueil Malmaison/France	100.00
33	AT2T Acier Transforme Targe Tournier S.A.S., La Grand-Croix/France	100.00
34	KDI Davum S.A.S., Le Port, La Réunion/France	100.00
35	KDI Export S.A.S., Cergy-Pontoise/France	100.00

1) IFRS HBII amounts.

2) Profit and loss transfer agreement. Subsidiaries made use of the exemption provided in Section 264 (3) and Section b of the German Commercial Code (HGB).

Held by entity no.	Currency	Equity in Euro[1]	Net income in Euro[1]		Sales in Euro[1]
-		-	-		-
1	EUR	25,000	-	2)	-
1	EUR	– 1,571,029	312,578	2)	222,449
1	EUR	3,630,189	168,986		-
1	EUR	– 848,488	107,642	2)	-
1	EUR	– 799,379	327,766	2)	-
1	EUR	– 2,093,094	300,000	2)	-
1	EUR	3,120,776	– 9,070,894		121,873
8	EUR	– 44,673	– 288,483		-
1	EUR	24,406,219	– 3,145,173	2)	680,222,861
10	EUR	2,019,574	1,093,747		-
11	EUR	13,531,882	3,622,441		99,477,822
1	EUR	30,143,607	– 656,217		-
13	EUR	25,955	-		-
13	EUR	24,793,546	– 6,152,433		139,768,294
15	EUR	-	-		-
15	EUR	16,637,264	576,085		24,423,335
15	EUR	1,258,410	89,249		1,488,390
17	EUR	825,533	– 33,279		2,933,716
17	EUR	193,990	– 8,445		-
17	EUR	3,290,020	608,871		7,036,501
17	EUR	3,979,473	2,625,748		9,290,482
13	EUR	-	-		-
1	EUR	10,456,000	– 384,443		52,977,627
10	EUR	-	-		-
1	EUR	54,584,767	– 3,409,482		-
24	EUR	51,903,001	– 10,211,239		178,263,873
24	EUR	3,023,024	– 2,726,835		11,334,125
24	EUR	-	1,541,477		-
25	EUR	-	-		-
27	EUR	– 1,286,513	– 3,547,953		-
1	EUR	229,723,571	2,742,925		-
30	EUR	12,501,384	– 48,425,587		281,211,593
30	EUR	10,271,260	2,249,832		29,687,305
31	EUR	6,046,833	345,509		33,635,834
31	EUR	1,387,474	– 556,528		14,219,598
31	EUR	– 837,562	– 349,518		141,638

Subsidiary listing according to Sections 285 No. 11/313 para 2 German Commercial Code (HGB)

No.	Entity	Interest in percent
36	KDI Immobilier S.A.S., Aubervilliers/France	100.00
37	Prafer S.A.S., Woippy/France	100.00
38	Becker Besitz GmbH, Duisburg/Germany	100.00
39	Becker Stahl-Service GmbH, Duisburg/Germany	100.00
40	Becker Aluminium-Service GmbH, Duisburg/Germany	100.00
41	Becker Stahl GmbH, Bönen/Germany	100.00
42	Umformtechnik Stendal GmbH, Stendal/Germany	100.00
43	Debrunner Koenig Holding AG, St. Gallen/Switzerland	100.00
44	BEWETEC AG, Oberbipp/Switzerland	100.00
45	Debrunner Acifer AG, St. Gallen/Switzerland	100.00
46	Debrunner Acifer Bewehrungen AG, St. Gallen/Switzerland	100.00
47	Debrunner Koenig Management AG, St. Gallen/Switzerland	100.00
48	Metall Service Menziken AG, Menziken/Switzerland	100.00
49	Klöckner USA Holding Inc., Wilmington/Delaware/USA	100.00
50	Klöckner Namasco Holding Corporation, Wilmington/Delaware/USA	100.00
51	Kloeckner Metals Corporation, Wilmington/Delaware/USA	100.00
52	California Steel and Tube LLC, Wilmington/Delaware/USA	100.00
53	Kloeckner Metals P.R., Inc., Wilmington/Delaware/USA	100.00
54	Kloeckner Metals Relief Fund, Inc., Wilmington/Delaware/USA	100.00
55	Kloeckner Metals Servicios de Mexico, S.A. de C.V., Apodaca, Estado de Nuevo Leon/Mexico	100.00
56	Kloeckner Metals de Mexico S.A. de C.V., Monterrey, Estado de Nuevo Leon/Mexico	100.00
57	Kloeckner Metals Brasil Ltda., Sao Paulo/Brazil	100.00

Held by entity no.	Currency	Equity in Euro[1]	Net income in Euro[1]		Sales in Euro[1]
31	EUR	88,514,839	3,441,385		-
31	EUR	– 5,942,527	– 7,956,192		4,293,928
1	EUR	25,000	-	2)	-
1	EUR	123294514.00	11340.00	2)	547616288.00
39	EUR	215,638	– 96,393	2)	58,949,469
39	EUR	567,837	840	2)	-
39	EUR	4,222,189	-	2)	15,391,648
1	EUR	278,716,990	35,755,971		-
43	EUR	106,365,395	8,397,857		153,757,933
43	EUR	-	-		-
43	EUR	-	-		-
43	EUR	5,451,431	– 39,601		33,059
43	EUR	22,756,678	2,334,862		81,200,707
1	EUR	108,957,356	– 686		-
49	EUR	241,289,739	-		-
50	EUR	398,400,686	– 21,185,688		1,939,078,059
51	EUR	12,404,899	– 391,693		25,142,465
51	EUR	931,319	97,195		1,269,808
51	EUR	-	– 25,877		-
51	EUR	229,644	37,392		-
51	EUR	19,881,918	44,224		59,258,258
13	EUR	6,150,221	1,054,971		23,571,591

Subsidiary listing according to Sections 285 No. 11/313 para 2 German Commercial Code (HGB)

No.	Entity	Interest in percent
II.	**Non-consolidated affiliated companies**	
58	Reynolds Aluminium et Laiton S.A.S., Paris/France	100.00
59	Umformtechnik Stendal UTS s.r.o., Skalica/Slovakia	100.00
III.	**Associates**	
60	Birs-Stahl AG, Birsfelden/Switzerland	50.00

Held by entity no.	Currency	Equity in Euro[1]	Net income in Euro[1]		Sales in Euro[1]
30	EUR	19,018	– 1,837	3)	-
42	EUR	250,912	19,671	3)	42,864
45	EUR	932,443	9,579	3)	1,129,638

3) Based on report as of December 31, 2019.

Listing pursuant to Section 160 (1) No. 8 of the German Stock Corporation Act (AktG)

For further information on the ownership structure of Klöckner & Co SE and all publications by Klöckner & Co SE on notifications of shareholdings in the reporting year, together with later notifications, please see the Klöckner & Co SE website (at https://www.kloeckner.com/en/investors/shares.html and https://www.kloeckner.com/en/investors/legal-announcements/voting-rights.html).

Notifier	Registered office/Country	Notification threshold	Date on which threshold was crossed or reached	Total positions in % (absolute figure/total number of voting rights)	Voting rights	Instruments
SWOCTEM GmbH [1]	Haiger, Germany	25% (Exceeding of threshold)	February 2, 2016	25.245604% (25,182,490/99,750,000)	25.245604% (25,182,490)	
Prof. Dr. Friedhelm Loh [2]	Germany	25% (Exceeding of threshold)	February 2, 2016	25.245604% (25,182,490/99,750,000)	25.245604% (25,182,490)	
Franklin Mutual Advisers, LLC	Wilmington, Delaware, USA	5% (Shortfall threshold)	May 14, 2019	4.9969% (4,984,379/99,750,000)	4.9969% (4,984,379)	0%
Claas Edmund Daun		3% (Exceeding of threshold)	May 17, 2019	3.05% (3,047,051/99,750,000)	3.05% (3,047,051)	0%
Franklin Mutual Series Funds	Wilmington, USA	3% (Shortfall threshold)	August 5, 2020	2.91% (2,902,946/99,750,000)	2.91% (2,902,946)	0.00%
Dimensional Holdings Inc. [3]	Austin, Texas, USA	3% (Shortfall threshold)	September 21, 2020	2.998541353383% (2,991,045/99,750,000)	2.998541353383% (2,991,045)	0.00%
DWS Investment GmbH	Frankfurt am Main, Germany	3% (Exceeding of threshold) [4]	February 12, 2021	3.35% (3,337,074/99,750,000)	3.35% (3,337,074)	0.00%

1) For the full chain of controlled undertakings stated in the notification, please see our publication of February 9, 2016 pursuant to Section 26 (1) WpHG o.v..
2) For the full chain of controlled undertakings stated in the notification, please see our publication of February 9, 2016 pursuant to Section 26 (1) WpHG o.v..
3) For the full chain of controlled undertakings stated in the notification, please see our publication of September 28, 2020 pursuant to Section 40 (1) WpHG.
4) Equity collateral received.

	Voting rights attached to shares in % or absolute figures (as notified)		Financial instruments according to Section 38 WpHG (if notified)		Attribution provision of WpHG (as in force at time of notification)	Names of shareholders with 3% or more voting rights (if different from notifier)
	direct	indirect	Sec. 38 (1) No. 1 WpHG	Sec. 38 (1) No 2 WpHG		
	25.245604% (25,182,490)					
		25.245604% (25,182,490)			Sec 22 WpHG o.v. (now: Sec 34 WpHG)	SWOCTEM GmbH
		4.9969% (4,984,379)			Sec 34 WpHG	Franklin Mutual Series Funds
		3.05% (3,047,051)			Sec 34 WpHG	DAUN & CIE. Aktiengesellschaft
		2.91% (2,902,946)			Sec 34 WpHG	
		2.9985413533383% (2,991,045)			Sec 34 WpHG	
		3.35% (3,337,074)			Sec 34 WpHG	

Additional information concerning the consolidated and individual financial statements

Attachment to the additional information

Information on additional mandates of the members of the Management Board of Klöckner & Co SE (Section 285 no. 10 German Commercial Code (HGB – Handelsgesetzbuch)

Gisbert Rühl

CHAIRMAN OF THE MANAGEMENT BOARD

Group mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- Klöckner USA Holding Inc., Wilmington/USA, Chairman of the Board of Directors (until August 31, 2020)
- Klöckner Namasco Holding Corporation, Wilmington/USA, Chairman of the Board of Directors (until August 31, 2020)
- Klöckner & Co Deutschland GmbH, Duisburg, Chairman of the Supervisory Board (until August 31, 2020)
- Debrunner Koenig Holding AG, St. Gallen/Switzerland, Chairman of the Board of Directors (until August 31, 2020)

Other mandates in legally required supervisory boards and comparable domestic and foreign corporate bodies

- RWE Power AG, Essen, Member of the Supervisory Board
- Röchling SE & Co. KG, Mannheim, Member of the Advisory Board (since June 8, 2020)
- KREATIZE GmbH, Berlin, Member of the Advisory Board

Guido Kerkhoff

DEPUTY CHAIRMAN OF THE MANAGEMENT BOARD (SINCE SEPTEMBER 1, 2020)

Group mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- Klöckner USA Holding Inc., Wilmington/USA, Chairman of the Board of Directors (since September 1, 2020)
- Klöckner Namasco Holding Corporation, Wilmington/USA, Chairman of the Board of Directors (since September 1, 2020)
- Klöckner & Co Deutschland GmbH, Duisburg, Chairman of the Supervisory Board (since September 1, 2020)
- ODS B.V., Rotterdam/The Netherlands, Chairman of the Supervisory Board (since September 1, 2020)
- ODS Metering Systems B.V., Rotterdam/The Netherlands, Chairman of the Supervisory Board (since September 1, 2020)
- Debrunner Koenig Holding AG, St. Gallen/Switzerland, Chairman of the Board of Directors (since September 1, 2020)

Other mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- None

Dr. Oliver Falk

MEMBER OF THE MANAGEMENT BOARD

Group mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- Klöckner & Co Deutschland GmbH, Duisburg, Member of the Supervisory Board
- ODS B.V., Rotterdam/The Netherlands, Member of the Supervisory Board
- ODS Metering Systems B.V., Rotterdam/The Netherlands, Member of the Supervisory Board
- Klöckner USA Holding Inc., Wilmington/USA, Member of the Board of Directors

Other mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- None

John Ganem

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, CASSIOPEIA GMBH, DÜSSELDORF, GERMANY

- denkwerk GmbH, Member of the Advisory Board[2)]
- HSBC Trinkaus & Burkhardt AG, Member of the Advisory Board[2)]

Group Mandates Lindsay Goldberg Fonds:
- VDM Metals GmbH, Deputy Chairman of the Supervisory Board[1)] (until March 11, 2020)
- Schur Flexibles Holding GesmbH, Austria, Member of the Advisory Board[2)] (until September 30, 2020)
- PACCOR Deutschland GmbH, Member of the Advisory Board[2)] (until September 30, 2020)

Dr. Ralph Heck, Deputy Chairman

ENTREPRENEUR AND DIRECTOR EMERITUS MCKINSEY & COMPANY, MEGGEN, SWITZERLAND

- Bilfinger SE, Member of the Supervisory Board[1)]
- Adolf Würth GmbH & Co. KG, Member of the Advisory Board[2)]
- Formel D GmbH, Chairman of the Advisory Board[2)]

Prof. Dr. Karl-Ulrich Köhler

CEO OF SHS-STAHL-HOLDING-SAAR GMBH, DILLINGEN/SAAR, GERMANY (SINCE JANUARY 1, 2021)

- Montan-Stiftung-Saar, Member of the Board of Trustees[2)]
- Dillinger Hütte Saarstahl AG, Member of the Supervisory Board[1)] (until December 31, 2020)
- Aktiengesellschaft der Dillinger Hüttenwerke, Member of the Supervisory Board[1)] (until December 31, 2020)

Prof. Dr. Tobias Kollmann

CHAIR OF E-BUSINESS AND E-ENTREPRENEURSHIP AT THE UNIVERSITY OF DUISBURG-ESSEN, GERMANY

- COMECO GmbH & Co KG, Deputy Chairman of the Supervisory Board[2)]

Prof. Dr. Friedhelm Loh

ENTREPRENEUR, OWNER AND CHAIRMAN OF FRIEDHELM LOH STIFTUNG & CO. KG, HAIGER, GERMANY

- Deutsche Messe AG, Member of the Supervisory Board[1)] (until November 30, 2020)
- Fraunhofer-Gesellschaft zur Förderung der angewandten Forschung e.V., Senator[2)] (until December 31, 2020)

Ute Wolf

CFO OF EVONIK INDUSTRIES AG, ESSEN, GERMANY

- DWS Group GmbH & Co. KGaA, Member of the Supervisory Board[1)]
- Pensionskasse Degussa VVaG, Member of the Supervisory Board[1)]
- Borussia Dortmund Geschäftsführungs-GmbH, Member of the Economic Council[2)]

Group Mandates Evonik Industries AG:
- Evonik Nutrition & Care GmbH, Member of the Supervisory Board[1)] (until June 30, 2020)
- Evonik Resource Efficiency GmbH, Member of the Supervisory Board[1)] (until June 30, 2020)
- Evonik Performance Materials GmbH, Member of the Supervisory Board[1)] (until June 30, 2020)

1) Membership in legally required Supervisory Boards as defined by Section 125 German Stock Corporation Act (AktG).
2) Membership in similar corporate Supervisory Bodies in Germany and abroad as defined by Section 125 German Stock Corporation Act (AktG).

Disclaimer

This report (particularly the "Forecast" section) contains forward-looking statements which reflect the current views of the management of Klöckner & Co SE with respect to future events. They generally are designated by the words "expect", "assume", "presume", "intend", "estimate", "strive for", "aim for", "plan", "will", "endeavor", "outlook" and comparable expressions and generally contain information that relates to expectations or goals for economic conditions, sales proceeds or other yardsticks for the success of the enterprise. Forward-looking statements are based on currently valid plans, estimates and expectations and are therefore only valid on the day on which they are made. You therefore should consider them with caution. Such statements are subject to numerous risks and factors of uncertainty (e.g. those described in publications) most of which are difficult to assess and which generally are outside of the control of Klöckner & Co SE. The relevant factors include the effects of significant strategic and operational initiatives, including the acquisition or disposal of companies or other assets. If these or other risks and factors of uncertainty occur or if the assumptions on which the statements are based turn out to be incorrect, the actual results of Klöckner & Co SE can deviate significantly from those that are expressed or implied in these statements. Klöckner & Co SE cannot give any guarantee that the expectations or goals will be attained. Klöckner & Co SE – notwithstanding existing legal obligations – rejects any responsibility for updating the forward-looking statements through taking into consideration new information or future events or other things. In addition to the key figures prepared in accordance with IFRS and German-GAAP respectively, Klöckner & Co SE is presenting non-GAAP key figures such as EBITDA, EBIT, Net Working Capital and net financial liabilities that are not a component of the accounting regulations. These key figures are to be viewed as supplementary to, but not as a substitute for data prepared in accordance with IFRS. Non-GAAP key figures are not subject to IFRS or any other generally applicable accounting regulations. In assessing the net assets, financial position and results of operations of Klöckner & Co SE, these supplementary figures should not be used in isolation or as an alternative to the key figures presented in the consolidated financial statements and calculated in accordance with the relevant accounting principles. Other companies may base these concepts upon other definitions. Please refer to the definitions in this annual report. For other terms not defined in this annual report, please refer to the glossary on our website at https://www.kloeckner.com/en/glossary.html.

Rounding
There may be rounding differences with respect to the percentages and figures in this report.

Variances for technical reasons
Variances may arise for technical reasons (e.g., conversion of electronic formats) between the accounting documents contained in this Annual Report and the format submitted to the Federal Gazette (Bundesanzeiger). In this case, the version submitted to the Federal Gazette shall be binding.

This English version of the Annual Report is a courtesy translation of the original German version; in the event of variances, the German version shall prevail over the English translation.

Evaluating statements
Evaluating statements are unified and are presented as follows:

+/– 0-1%	constant
+/– >1-5%	slight
+/– >5%	considerable

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www.kloeckner.com

FINANCIAL CALENDAR 2021

March 10, 2021

Annual Financial Statements 2020
Financial statement press conference
Conference Call with analysts

April 29, 2021

Q1 quarterly statement 2021
Conference Call with journalists
Conference Call with analysts

May 12, 2021

Annual General Meeting 2021

August 13, 2021

Half-yearly financial report 2021
Conference Call with journalists
Conference Call with analysts

November 3, 2021

Q3 quarterly statement 2021
Conference Call with journalists
Conference Call with analysts

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