

**klöckner & co**

multi metal distribution

ANNUAL REPORT 2007

## KLÖCKNER & CO GROUP – KEY FIGURES

Highlights 2007

### Income Statement

		2007	2006	Pro-Forma*) 2005
Sales	€ million	6,274	5,532	4,964
Earnings before interest, tax depreciation and amortization (EBITDA)	€ million	371	395	197
Earnings before interest and taxes (EBIT)	€ million	307	337	135
Earnings before taxes (EBT)	€ million	210	273	81
Earnings after taxes (EAT)	€ million	156	235	52
Earnings per share (basic)	€	2.87	4.44	–
Earnings per share (diluted)	€	2.87	4.44	–

### Cash Flow Statement

		2007	2006	Pro-Forma 2005
Cash flow from operating activities	€ million	109	132	121
Cash flow from investing activities	€ million	– 378	10	– 44

### Balance Sheet

		Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005
Working capital**)	€ million	1,323***)	1,135	957
Net cash indebtedness	€ million	746	365	719
Equity	€ million	845	799	323
Balance sheet total	€ million	2,966	2,552	2,256

### Key Figures

		2007	2006	Pro-Forma 2005
Sales volume	to'000	6,478	6,127	5,868
Employees at end of period (Dec. 31)		10,581	9,688	9,901

\*) Excluding release of negative goodwill in the amount of €139 million, restructuring expenses of €17 million, results from disinvestment of €2 million and, in the EBT and EAT, excluding transaction costs in the amount of €39 million

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

\*\*\*) Including Namasco Ltd.; €1,276 million excluding Namasco Ltd.

#### Explanation of pro-formas:

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

## HIGHLIGHTS 2007

### **Sales growth/strong earnings performance in 2007**

In financial year 2007, the Klöckner & Co Group generated sales of €6.3 billion. The sales increase from €5.5 billion in 2006 to €6.3 billion in 2007 was largely the result of acquisitions and price increases. At around €371 million, Klöckner & Co generated its second-best earnings (EBITDA) in the more than hundred-year history of the company.

### **Acquisition goals for 2007 achieved ahead of schedule**

Klöckner & Co AG successfully continued its expansion strategy in financial year 2007. By September, it had achieved its goal of carrying out ten to twelve acquisitions in 2007. In total, twelve companies with total sales of around €570 million were acquired in Europe and North America in 2007.

### **Further improvement in Group financing basis**

In 2007, key steps were taken towards further optimizing Group financing. For example, a syndicated holding loan of €600 million was successfully placed and a convertible bond of €325 million with a 1.5% coupon was issued. Thus, Klöckner & Co AG's Group financing is on a sound footing and offers further potential for the company's growth strategy.

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

The company continued to implement the measures of the "STAR" performance program on schedule. The aim of "STAR" is to identify and implement operating potential for value enhancement. In particular, this includes bundling global sales and optimizing of the distribution network.

**Inclusion in MDAX**

In January 2007, just seven months after the company's IPO, Klöckner & Co shares were unexpectedly included in the MDAX of Deutsche Börse. The shares had previously been included in Deutsche Börse's SDAX in September 2006.

**100% free float**

Since April 2007, all of Klöckner & Co AG's shares have been held in free float. The former majority shareholder of Klöckner & Co, Multi Metal Investment S.à r.l. ("MMI") sold its remaining 15.5% of shares in Klöckner & Co in April to predominantly German and international institutional investors. In October 2006, the then majority shareholder MMI sold 20% of shares as part of a re-placement, followed by a further 30% in January 2007.

**First public Annual General Meeting in June 2007**

In June 2007, Klöckner & Co held its first Annual General Meeting since its IPO. Around 300 shareholders and shareholder representatives attended the Klöckner & Co Annual General Meeting in Düsseldorf on June 20, 2007.



## BRIEF PORTRAIT OF KLÖCKNER & CO AG

Klöckner & Co AG is the largest producer-independent multi metal distributor in the European and North American markets combined. It has been publicly listed since mid-2006 and generated sales of around €6.3 billion in 2007. Klöckner & Co is represented in 15 countries worldwide at more than 260 locations and employs more than 10,000 people in total.

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

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

In addition to unmachined metals and intermediate products, the Klöckner & Co Group offers its customers extensive services, including cutting and splitting steel strip, cutting to length, flame-cutting and surface treatments. With this range of products and services, the Klöckner & Co Group serves about 210,000 customers in total from a wide selection of industries. Its main industries are construction, machinery and mechanical engineering industries.

Business performance is largely determined by management of the product range and inventories and customer-specific management of order-related income and expenses.

Its ability to engage in global procurement from around 70 main suppliers gives the Klöckner & Co Group a further crucial competitive edge. Its independence from individual steel producers provides high flexibility and thus a solid basis for negotiating with suppliers. At the same time, the annual purchasing volume of about 6 million metric tons allows the company to engage in strategic partnerships and arrange attractive supply agreements.

## **4** THE GROUP

4	Letter to shareholders
8	Management Board and Supervisory Board
10	Report of the Supervisory Board
14	Klöckner & Co share
18	Our industries
18	Industry overview
20	Construction industry
22	Machinery and mechanical engineering
24	Corporate Governance

## **29** GROUP MANAGEMENT REPORT 2007

30	An overview of financial year 2007
31	Business and economic conditions
31	Group structure and business operations
32	Corporate strategy
34	General economic framework
35	Sector environment
36	Results of operations, financial position and net assets
36	Results of operations
37	Financial situation, financing, liquidity
39	Net assets, balance sheet structure
40	Overall statement on the current business situation of the Group
40	Key events after the end of the financial year and further information
40	Key events after the reporting date
41	Employees
41	Remuneration report
43	Legal information relating to takeovers
44	Dividend planning
44	Opportunities and risks
44	Opportunity and risk management
45	Short-term and medium-term opportunities and risks
46	Strategic opportunities and risks
47	Overall statement on opportunities and risks
47	Forecast report: Outlook

**56** CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

57	Declaration of the Management Board
58	Auditor's report
59	Consolidated statement of income
60	Consolidated balance sheet
63	Consolidated statement of cash flows
64	Summary of changes in equity
66	Notes to the consolidated financial statements
114	Other offices held by members of the Management Board and the Supervisory Board
118	Consolidated Group companies and joint ventures
122	Individual financial statements
125	Profit distribution proposal
126	Glossary

**129** FURTHER INFORMATION

130	Important addresses
133	Contact/imprint
134	Financial calendar 2008

The Group **3**

Letter to shareholders	4
Management Board and Supervisory Board	8
Report of the Supervisory Board	10
Klößner & Co share	14
Our industries	18
Corporate Governance	24



## Ladies and gentlemen,

4

The 2007 financial year was another good year for Klöckner & Co AG. Even though the market environment for steel and metal distribution was considerably more difficult in the second half of the year than the first, we generated the second-best operating result in the more than one-hundred year history of the company.

In the past financial year, we again achieved all our goals: As part of our expansion strategy, a total of twelve small and medium-sized steel and metal distributors with total annual sales of around €570 million were acquired in Europe and North America in 2007. We have also further optimized our Group financing by placing a syndicated holding loan and issuing a convertible bond. This has provided us with the necessary scope to continue our growth strategy. We even achieved all the demanding optimization targets of the STAR value enhancement program. We wish to thank our employees who played a crucial role in accomplishing this success.

We also wish to allow our shareholders to share in our strong earnings situation and therefore will be proposing a dividend of €0.80 per share to the Annual General Meeting. Thus, as in the previous year, we will be keeping the promise we made during our IPO for dividend levels.

In the current financial year, we will be maintaining our successful corporate strategy of expansion through external and organic growth and ongoing optimization of existing business. In order to reinforce our position further as the largest producer-independent steel and metal distributor in the combined European and North American market, we will again be striving to achieve external growth in 2008. In future, we will not be measuring the success of our expansion strategy so much in terms of the number of acquisitions we perform, but rather will be focusing on the additional sales volume these transactions bring us. In 2008, we will be striving for a similar level of external growth to that achieved in 2007. Our objectives will be selected in terms of the expansion of geographical presence, the customer base and the product range. As well as the further expansion of our activities in North America and Western Europe, Eastern Europe in particular will be integrated more intensively into our expansion strategy. In addition to external growth, organic growth of 6.9% was achieved in 2007, despite the closure and consolidation of ten unprofitable locations. A foundation for further organic growth in 2008 was established partly by opening a warehouse location in Poland and preliminary work for new locations in the Czech Republic and Rumania.

This year, the STAR value enhancement program that was initiated in 2005 will be entering phase II. In addition to the ongoing optimization of the distribution network and inventories, the core aspect of this is the gradual establishment of a European purchasing organization. Thus, international cooperation will be intensified and geared more strongly towards the combined European market.

As part of this stronger, pan-European integration, it was resolved in the Fall of 2007 to propose to the 2008 Annual General Meeting of Klöckner & Co AG to transform the company from a German stock corporation to a European company (Societas Europaea, SE). The preparations for the transformation of Klöckner & Co AG into an SE began in 2007.

In order to master best the constant rise in tasks and challenges in future, the Management Board of Klöckner & Co AG was expanded with the appointment of Ulrich Becker. He will join the Management Board of Klöckner & Co AG from April 1, 2008 and will be responsible for the Europe segment and purchasing.

Klöckner & Co is assuming a strong business performance in the first half of 2008. Although the development in the second half of the year cannot yet be foreseen due to global economic risks, current trends indicate another positive result for 2008 as a whole. We are well positioned with the measures we have presented and, in light of the current forecasts for steel market performance, we are also confident of positive overall business developments in 2009 as well. This should also ensure our policy of dividend continuity.

On behalf of ourselves and our dedicated employees, we would like to thank you, our shareholders and business partners, for your esteemed partnership in this past financial year, and we look forward to continuing our successes this year.

Yours sincerely,



Dr. Thomas Ludwig  
Chairman of the Management Board



Gisbert Rühl  
Chief Financial Officer

Letter to shareholders	4
Management Board and Supervisory Board	8
Report of the Supervisory Board	10
Klöckner & Co share	14
Our industries	18
Corporate Governance	24

*"The further optimization of Group financing  
in 2007 has provided us with the necessary scope  
to continue our profitable growth."*

Gisbert Rühl  
Chief Financial Officer Klöckner & Co AG



*“We have met all our growth targets for 2007 with the acquisition and integration of more than ten companies. We will be actively participating in market consolidation again in 2008.”*

Dr. Thomas Ludwig  
Chairman of the Management Board Klöckner & Co AG



## MANAGEMENT BOARD

8

### Dr. Thomas Ludwig

Chairman of the Management Board

Born in 1948, Management Board member since November 2003 and appointed until May 31, 2011. He is responsible for Country Operations and for Procurement, Human Resources/Communications, Legal and Process Management/Internal Auditing.

### Gisbert Rühl

Chief Financial Officer

Born in 1959, Management Board member since July 2005 and appointed until May 31, 2011. He is responsible for the other Participations and for Accounts/Finance, Controlling/M&A/Corporate Development, Taxes, Corporate IT and Investor Relations.

### Ulrich Becker

Member of the Management Board

Born in 1961, Management Board member since April 2008 and appointed until March 31, 2013. Starting April 1, 2008, he will be responsible for the Europe segment and Purchasing.

## SUPERVISORY BOARD

### Supervisory Board

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

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

**Michael W. Dees**  
Principal, Lindsay Goldberg, New York,  
until November 15, 2007

**Alan E. Goldberg**  
Managing Partner, Lindsay Goldberg, New York,  
until June 20, 2007

**Robert J. Koehler**  
Chairman of the Management Board  
of SGL CARBON AG, Wiesbaden,  
since December 11, 2007

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

**Robert D. Lindsay**  
Managing Partner, Lindsay Goldberg, New York,  
until June 20, 2007

**Dr. Jochen Melchior**  
Former Chairman of the Management Board of  
the former STEAG AG, Essen, since June 20, 2007

**Dr. Hans-Georg Vater**  
Former member of the Board of Management  
at HOCHTIEF Aktiengesellschaft, Essen,  
since June 20, 2007

### Executive Committee

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

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

**Dr. Michael Rogowski**

**Alan E. Goldberg**  
until June 20, 2007

**Dr. Hans-Georg Vater**  
since June 20, 2007

### Audit Committee

**Dr. Hans-Georg Vater**  
Chairman  
since December 12, 2007

**Michael W. Dees**  
Chairman  
until November 15, 2007

**Dr. Michael Rogowski**

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

### The Group 9

Letter to  
shareholders 4

Management  
Board and  
Supervisory Board 8

Report of the  
Supervisory Board 10

Klöckner & Co  
share 14

Our industries 18

Corporate  
Governance 24

## REPORT OF THE SUPERVISORY BOARD

In financial year 2007, the Supervisory Board performed the duties for which it is responsible according to law, the Articles of Association and the Rules of Procedure. It was involved in all key matters of the company and its investment companies. The meetings of the Supervisory Board regularly discussed the general economic situation, the industry situation, the business performance of the Klöckner & Co Group and the performance of Klöckner & Co shares. The Management Board also provided us with detailed monthly written reports on the sales, earnings and financial situation of the Group and its major operating companies and the development of the capital market, peer group companies and the share price in the form of Board reporting. The Management Board maintained regular contact with the Chairman of the Supervisory Board. There was a routine monthly discussion of the Group's situation and strategic issues between the Management Board and the Chairman of the Supervisory Board.

### **Corporate governance, organization of the work of the Supervisory Board**

With a few justified exceptions, the work of the Supervisory Board is regulated by the provisions of the German Corporate Governance Code (GCGC). On March 5, 2007 the Management Board and Supervisory Board issued the declaration of compliance in accordance with section 161 AktG (German Stock Corporation Act). In line with the announced schedule, this declaration was updated on December 12, 2007. In the meeting of the Supervisory Board on September 20, 2007, the Rules of Procedure for the Management Board and the Supervisory Board were adapted in line with the new developments of the provisions of the GCGC and, in particular, passed a compliance guideline for the Klöckner & Co Group to support and control the integrity of the actions of all its

employees. Caps were introduced for tranches two to five of the Management Board's virtual stock option program in line with the recommendation of the GCGC and the service agreements of the members of the Management Board were adjusted accordingly (see also the Remuneration report).

The Supervisory Board has an Executive Committee and an Audit Committee. In line with the Rules of Procedure, the Executive Committee also performs the function of a Personnel Committee, a Committee for Urgent Matters and – according to the latest amendment to the GCGC – a Nomination Committee to prepare proposals for appointments for Supervisory Board mandates. All the committees consist of three members and – with the exception of the Audit Committee – are headed by the Chairman of the Supervisory Board. The Management Board was regularly and closely involved in the work of the Supervisory Board. The members of the Management Board took part in the meetings and conference calls of the Supervisory Board and its committees unless they themselves were the subject of discussion.

In 2007, the Supervisory Board met for four face-to-face meetings. The Audit Committee met twice, the Executive Committee three times. The Executive Committee also passed several urgent resolutions outside meetings as the Committee for Urgent Matters. The Supervisory Board as a whole passed other urgent resolutions at short notice outside meetings by written procedure or in conference calls. Furthermore, in anticipation of its function as the Nomination Committee, the Executive Committee met on September 20, 2007 and proposed a new member of the Supervisory Board for court appointment.

The Rules of Procedure resolved by the Supervisory Board for the Management Board contain detailed regulations for the cooperation between the Management Board and the Supervisory Board including an extensive list of key or extraordinary transactions and measures in the Group requiring the approval of the Supervisory Board and the plan devised by the Supervisory Board for the division of the Management Board's duties. In Fall 2007, in order to limit the number of procedures requiring joint participation to the essentials, the Supervisory Board raised the approval limits in the Rules of Procedure as part of the adjustment in line with the amendments to the GCGC and revised the list of transactions requiring approval on the basis of past experience.

In its meeting on December 12, 2007, the Supervisory Board extensively discussed the examination of the efficiency of its work. These discussions focused on issues of the composition of the Supervisory Board and the division of its responsibilities and the content and organization of its work. The conclusion was reached that no acute need for action to improve the efficiency of the work of the Supervisory Board is currently discernible. This issue is scheduled to be covered again in a more structured form in Fall 2008 on the basis of the experience available at that time.

### Work focusing on acquisitions and Group financing

In addition to corporate governance issues, work in 2007 focused mainly on the implementation of the acquisition program and measures to optimize Group financing. The Management Board provided informative documentation in all cases. Where necessary, the committees of the Supervisory Board prepared decisions in plenary sessions and in individual cases made a decision in place of the

Supervisory Board session. The committee chairpersons regularly and comprehensively reported on the content and outcome of committee meetings in plenary sessions. In the appropriate cases, the Supervisory Board voted after thoroughly examining and discussing the issues at hand.

In a conference call on March 15, 2007, the Supervisory Board decided on the acquisition of Primary Steel LLC on the basis of an extensive written proposal. As one of the largest acquisitions in the history of Klöckner & Co, the acquisition of the US distribution company allowed the Group to increase its market share in the US significantly. In the meeting of the Supervisory Board on March 28, 2007, options for optimizing Group financing were discussed and a decision was made on the holding facility of up to €600 million. This was placed in Spring 2007 in the form of a syndicated loan, significantly expanding the Group's financial scope. At its meeting on April 25, 2007, the Supervisory Board approved the repayment of the high yield bond originating from the 2005 acquisition financing by written procedure. It also approved an acquisition focused on stainless steel distribution area in Germany.

On May 25, 2007, the Supervisory Board also approved by written procedure the two-stage expansion of the investment in Switzerland by increasing the company's equity interest in its Swiss subsidiary Debrunner Koenig Holding AG and a further acquisition in the US and an acquisition in the UK. The full acquisition of the Swiss subsidiary also opens up other options for optimizing Group financing in future.

The main topic of discussion at the Supervisory Board meeting on June 20, 2007 was the preparation for the subsequent Annual General Meeting.

Letter to shareholders	4
Management Board and Supervisory Board	8
Report of the Supervisory Board	10
Klöckner & Co share	14
Our industries	18
Corporate Governance	24



In addition, there was an involved discussion regarding the planned issuance of a convertible bond. On July 10, 2007, on the basis of the resolution by the Annual General Meeting to create conditional capital for this purpose, the Supervisory Board approved the indicative conditions for the issuance of the convertible bonds and delegated final approval to the Executive Committee. In turn, it approved the final conditions and the issuance in two conference calls on July 17 and 18, 2007. On July 25, 2007, the Supervisory Board resolved in written procedure the acquisition of a majority investment in the Bulgarian market leader for metal distribution.

The meeting on September 20, 2007 focused on corporate governance issues including the compliance guideline. In addition, it approved a further acquisition in the UK and commissioned the auditor to audit the 2007 annual and consolidated financial statements on the basis of a proposal by the Audit Committee and to review compliance with the Group's internal guidelines and compliance with the recommendations of the GCGC. Furthermore, the Supervisory Board followed the proposal of the Management Board to recommend to the Annual General Meeting in 2008 the change in the legal form of the company from a German stock corporation to a European company (*Societas Europaea*, SE). The Management Board was instructed to take all necessary preparatory measures in this regard.

In its meeting on December 12, 2007, the Supervisory Board and the Management Board discussed its extensive program of measures for the future strategic direction of the Klöckner & Co Group including several major structural measures and acquisition goals. The budget for 2008 was discussed and passed in the same meeting.

### Annual financial statements

These annual financial statements of Klöckner & Co AG for the 2007 financial year, the consolidated financial statements and the group management report have been audited by the auditor appointed by the Annual General Meeting and commissioned by the Supervisory Board, KPMG Hartkopf + Rentrop Treuhand KG Wirtschaftsprüfungsgesellschaft, and have each received an unqualified audit opinion. The audit reports and the financial statement documents were made available to all members of the Supervisory Board. They were discussed by both the Audit Committee and the plenary session.

The auditor took part in the discussions of the Audit Committee and the Supervisory Board on March 31, 2008, reported on the key findings of the audit and answered questions. The Supervisory Board acknowledged the findings of the audit. The review of compliance with the Group's internal guidelines and compliance with the recommendations of the GCGC did not give rise to any material objections.

Following its final review of the annual financial statements and the management report of the company and the consolidated financial statements and the Group management report and in line with the recommendation of the Audit Committee, the Supervisory Board raises no objections. The Supervisory Board approved the annual financial statements and the consolidated financial statements prepared by the Management Board in its meeting on March 31, 2008. The annual financial statements are thereby adopted. The Supervisory Board agrees with the proposal of the Management Board for the appropriation of the net retained profits.

With respect to the risk detection system, the auditor stated that the Management Board had

taken the measures required in accordance with section 91 (2) of the Aktiengesetz (AktG – German Stock Corporation Act), including in particular those for establishing a monitoring system, in an appropriate manner and that the monitoring system is capable of detecting of developments that could jeopardize the company's continued existence at an early stage. Furthermore, the Management Board submitted to the Supervisory Board the related parties report in accordance with section 312 AktG that was required on account of the company's major shareholder at the start of the reporting period and the audit report prepared on this subject by the auditor. The wording of the unqualified audit opinion in the audit report concerning the dependent company report is as follows:

"According to our dutiful audit and evaluation, we confirm that

1. the factual information and statements made in the report are correct,
2. the compensation issued by the Company in exchange for the acts in law listed in the report was not inappropriately high."

The Supervisory Board also examined the related parties report by the Management Board and following our final review have no objections to the declaration made by the Management Board at the end of the report. The Supervisory Board approves the auditor's report on the Management Board's report.

#### Personnel changes

Robert D. Lindsay and Alan E. Goldberg resigned their offices as members of the Supervisory Board on June 20, 2007. Michael W. Dees left the Supervisory Board in mid-November 2007. On June 20, 2007, the Annual General Meeting elected Dr. Jochen Melchior and Dr. Hans-Georg Vater as the

successors to Alan E. Goldberg and Robert D. Lindsay. Effective December 11, 2007, Robert J. Koehler was court appointed succeeding Michael W. Dees. This appointment is limited until the next Annual General Meeting. Dr. Jochen Melchior was the former Chairman of the Management Board of the former STEAG AG, Essen, Dr. Hans-Georg Vater was the CFO of Hochtief AG, Essen. Robert J. Koehler is the Chairman of the Management Board of SGL CARBON AG, Wiesbaden.

On June 20, 2007, Dr. Hans-Georg Vater was appointed as the successor to Alan E. Goldberg as a member of the Executive Committee and on December 12, 2007 as the successor to Michael W. Dees as the Chairman of the Audit Committee. The Supervisory Board thanks the three gentlemen who have left its ranks for their dedication and successful work for the company as well as their outstanding cooperation on the body.

On January 25, 2008, the Supervisory Board resolved to appoint Ulrich Becker as a further member of the Management Board for a further period of five years. Ulrich Becker will essentially be responsible for the operating management of the Europe segment and purchasing for the Klöckner & Co Group.

The Supervisory Board wishes to thank and acknowledge the Management Board and all the employees for their highly successful work in financial year 2007.

Duisburg, March 31, 2008

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

Letter to shareholders	4
Management Board and Supervisory Board	8
Report of the Supervisory Board	10
Klöckner & Co share	14
Our industries	18
Corporate Governance	24

## KLÖCKNER & CO SHARE

### Key data on the Klöckner & Co share

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

### Difficult year on stock market also influenced performance of the Klöckner & Co share

With a 2007 year-end closing price of €27.50 per Klöckner & Co share, the share price has risen 71.9% against the initial offering price on June 28, 2006. However, the shares did not continue their positive trend from the previous year and were down around 16% year-on-year as of the end of 2007. While the share price rose by over 64% in the first half of 2007, the shares lost almost 49% in the second half of the year. Klöckner & Co shares came under pressure for the first time following the placement of the convertible bond on July 18, 2007. After the price had recovered following the

announcement of the half-year figures in August of the past financial year, further performance was hampered by the adjustment of the earnings forecast on October 8, 2007. Furthermore, Klöckner & Co shares did not escape the impact of the US subprime crisis, which had already triggered a major slump on the German and international capital markets in July 2007.

Other key factors on the stock markets in the second half of the year included the record levels achieved by the Euro compared to the US Dollar, the development of the price of crude oil and the discussion of a possible economic down-turn in the US. Difficulties increased in the second half of the year in particular when there was a surge in demand for German blue chips among German and international investors rather than midcaps, such as Klöckner & Co. Overall, Klöckner & Co shares were outperformed by the German DAX® (up 22.3%) and MDAX® (up 4.9%) benchmark indices in 2007.

### Klöckner & Co share performance indicators

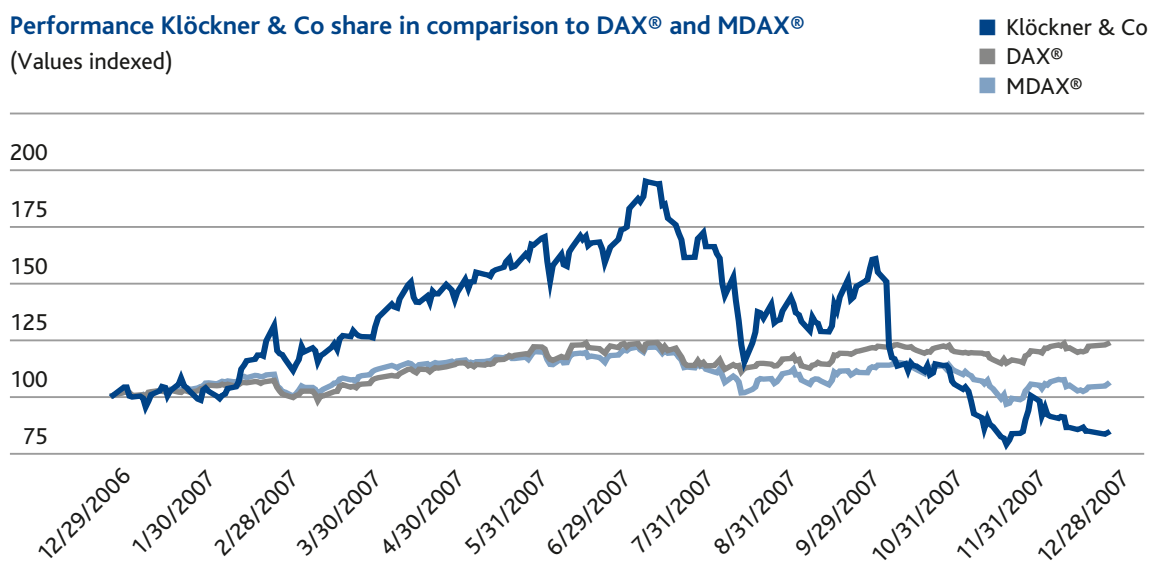
		2007	June 28– December 31, 2006
Number of shares as of December 31		46,500,000	46,500,000
Closing price (Xetra, close)	€	27.50	32.81
Market capitalization on December 31	€ million	1,279	1,526
High (Xetra, close)	€	63.20	32.81
Low (Xetra, close)	€	25.88	14.00
Average daily trading volume	shares <sup>1)</sup>	759,379	326,047
Distribution amount <sup>2)</sup>	€ million	37.2	37.2
Pay-out ratio (consolidated net income) <sup>3)</sup>	%	30	30
Close dividend per share	€	0.80 <sup>2)</sup>	0.80
Dividend yield	%	2.9	2.4
Convertible bond (closing price, Frankfurt) <sup>1)</sup>	€	78.55	–

<sup>1)</sup> Source: Deutsche Börse

<sup>2)</sup> Proposal for the Annual General Meeting on June 20, 2008

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

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



As described in the management report, the strategic goals and growth potential of the Klöckner & Co Group remained unchanged. Klöckner & Co met all its goals for the past financial year and reported its second-best operating result in the history of the company for the financial year 2007. The company is therefore confident that its solid results and growth potential will be more strongly reflected in its share price again in future.

Based on stock market turnover and free float market capitalization as of December 31, 2007, Klöckner & Co ranked 27th among all the companies listed on the MDAX®.

**Significant rise in trading volume and shareholdings of international investors**

The shareholder structure of Klöckner & Co AG changed significantly in 2007. The former majority shareholder of Klöckner & Co, the Multi Metal Investment S.à r.l. ("MMI") – an investment company of the financial investor Lindsay Goldberg – sold its remaining 15.5% share in Klöckner & Co in April 2007 to predominantly international institu-

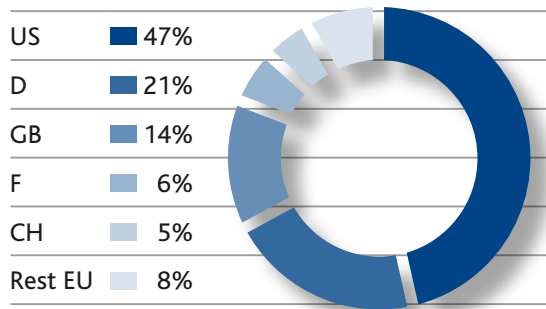
tional investors. Since then, free float has been 100%. In October 2006, the then majority shareholder MMI had sold a 20% share as part of a sell down, followed by a further 30% share in January 2007.

Accordingly, the average daily trading volume of Klöckner & Co shares has more than doubled to 759,379 shares compared to 2006. Turnover per quarter has also risen steadily, with 1.1 million shares traded daily in the fourth quarter of 2007.

In a survey conducted by Thomson Financial in September 2007, around 76% of our share capital was identified as being held by institutional investors. Private shareholders accounted for 11% of share capital. The survey was unable to allocate clearly the remaining shares. The geographical break down of institutional investors also changed significantly in 2007 not least as a result of sell down activities, in which the most of the shares sold by MMI went to international investors. Almost half of the institutional investors identified

- Letter to shareholders 4
- Management Board and Supervisory Board 8
- Report of the Supervisory Board 10
- Klöckner & Co share 14
- Our industries 18
- Corporate Governance 24

by the study are based in the US, followed by Germany, the UK and France.



According to the mandatory notifications of March 2007, Franklin Mutual Advisors, LLC is the largest single shareholder with 10.81% of voting rights in Klöckner & Co AG. TPG-Axon holds 5.38% according to its mandatory notification of December 2007. In addition, Fidelity International Limited holds 5.03% according to its notification of February 2008. The share of voting rights held by Franklin Mutual Series Fund is 5.00% according to a notification dated February 2007.

#### Annual General Meeting

Around 300 shareholders and shareholder representatives attended the first public Annual General Meeting in Düsseldorf held on June 20, 2007. More than 55% of the voting share capital was represented. All the resolutions proposed by the Management Board and the Supervisory Board were accepted by the shareholders with significant majorities ranging from 94.21% to 99.99%.

#### Dividend

The Management Board and Supervisory Board will propose to the Annual General Meeting the distribution of a dividend of €0.80 per share (previous year €0.80) for the financial year 2007. As in the previous year, this represents a pay-out ratio of 30% of the consolidated net income after deduction of special items. Thus, the company is meeting the stated dividend target and allowing the shareholders to participate in the good results. The dividend yield based on the year-end price is 2.9%. Depending on forthcoming annual results and capital requirements, Klöckner & Co intends to maintain this pay-out ratio in the next years.

#### Convertible bond

In July 2007, Klöckner & Co AG successfully placed a convertible bond of €325 million with a term of five years despite a capital market environment made difficult by the emerging US subprime crisis. As intended, the sole subscribers were institutional investors. The denomination was €50,000 per bond. The bond has a coupon of 1.50% p.a. and is traded on the Open Market of the Frankfurt Stock Exchange (ISIN DE000A0N0J03). The conversion price is €80.75 per Klöckner & Co share. This corresponds to a premium of 35% on the reference price of €59.81 per share determined on the issuance of the bond and a premium of around 405% on the IPO price of €16 per share in the Summer of 2006. In July 2007, Standard & Poor's rated the convertible bond at a B+ long-term rating.

### Dialog with the capital market continuously expanded

Particularly in the light of a difficult capital market environment, as present especially in the second half of 2007, Klöckner & Co attaches a great importance to a comprehensive, open and timely communication with its investors and analysts.

Klöckner & Co has systematically expanded its Investor Relations activities. Beyond the full year press and analysts' conferences and the Annual General Meeting. The Management Board presented itself at a number of roadshows and investor conferences in Germany and abroad in the year under review, meeting existing and new investors and analysts and answering their questions. In September of the year under review, the company organized an analysts' and investors' conference for the first time. Here, analysts and investors met at the Group's Swiss subsidiary and had the opportunity to learn in depth about the activities in this highly attractive market for Klöckner & Co. The company was also available to address questions raised by private investors.

16 banks and securities companies are now regularly publishing analyses and reports on the Klöckner & Co share. At the end of 2007, the analysts' investment recommendations were overwhelmingly positive: 77% of analysts recommended to buy Klöckner & Co shares, 15% gave them a "neutral" rating and only 8% advised to sell them. A constantly updated overview of analyst valuations can be found in the Investor Relations section of the company's website ([http://www.kloeckner.de/investor/en/index\\_en.php](http://www.kloeckner.de/investor/en/index_en.php)).

In addition, all relevant information on the Klöckner & Co share can also be found on the Investor Relations pages on the Internet. This includes the financial reports, the financial calendar, the presentations shown at the roadshows, information on corporate governance and up-to-date price performance data for the shares and the convertible bond. All the information on the Annual General Meeting of Klöckner & Co AG on June 20, 2008 will also be available in the Investor Relations section of the website.

The Investor Relations team looks forward to hearing your questions and ideas.

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### The Group 17

Letter to shareholders	4
Management Board and Supervisory Board	8
Report of the Supervisory Board	10
Klöckner & Co share	14
Our industries	18
Corporate Governance	24

## OUR INDUSTRIES: INDUSTRY OVERVIEW

18

### Introduction

Steel and metal products reach manufacturing customers through stockholding distributors, steel service centers or via producers' direct sales. The large steel producers generally only deliver a significantly reduced range in large volumes to large customers with long lead times. Steel service centers also mainly supply larger customers with sheets and slit-strips cut from coils.

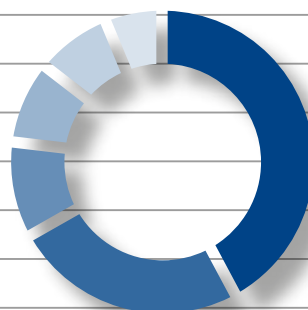
As a stockholding multi metal distributor with an extensive product and service range, Klöckner & Co serves about 210,000 mostly smaller to medium-sized customers from a number of industries around the world. Most of Klöckner & Co's customers are unable to procure steel and metal products directly from steel mills or the major steel service centers.

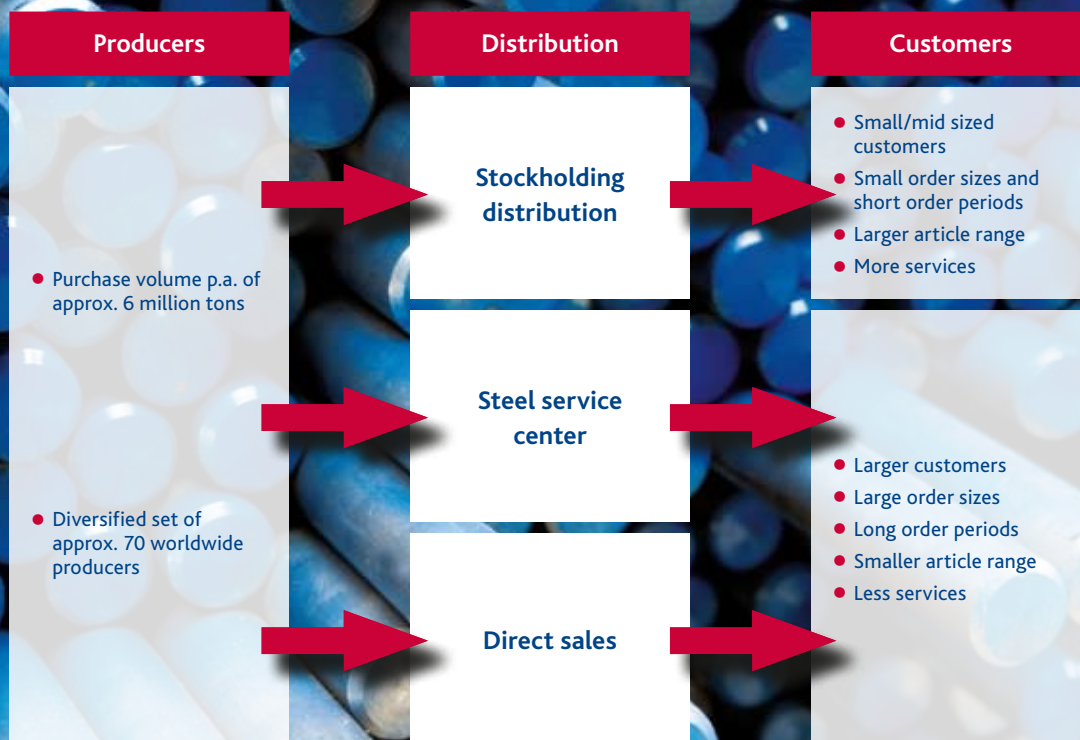
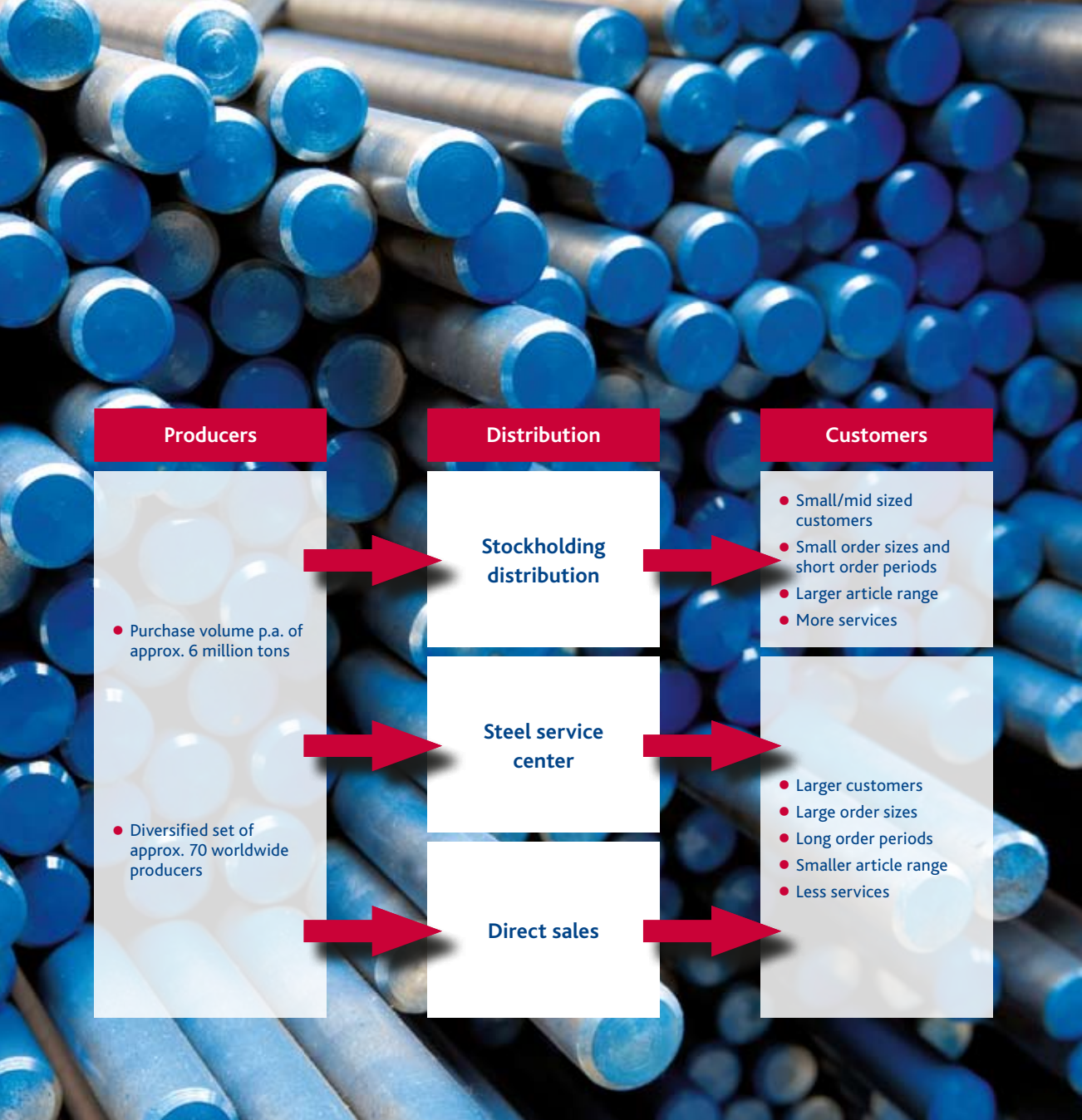
Steel and metal are universal materials that are used in almost all capital goods and end products. Klöckner & Co AG's customer portfolio is accordingly varied. The construction industry and machinery and mechanical engineering account for 67% of sales and are the main customer industries, followed by smaller, local dealers (9%), manufacturers of household appliances and consumer durables (8%) and the automotive industry (6%). The remaining 10% is spread over a number of other industries, such as general metal working, shipbuilding, medical technology and utilities.

As a multi metal distributor, Klöckner & Co predominantly serves smaller to medium-sized customers in the regions surrounding its stockholding locations. Customers generally place a range of orders with an average order value of less than €2,000.

### Industries Klöckner & Co AG

Construction industry	42%
Machinery and mechanical engineering	25%
Others	10%
Local dealers	9%
Household appliances/consumer durables	8%
Automotive industry	6%





In addition to its broad product range of well over 200,000 articles from several hundred suppliers, Klöckner & Co's comprehensive range of services includes the following

- delivery of small and micro amounts
- ready to use and just in time order processing
- extensive processing of materials, such as cutting to length, sawing, priming through to machining and welding
- short delivery times, generally 24 hours
- delivery right to the place of use (e.g. the construction site)
- attractive price conditions on account of global purchasing of large volumes

- standard industry payment terms
- single sourcing
- targeted consulting on choice of materials through to construction support
- quality assurance

Barring just a few exceptions, such as the Canadian subsidiary available for sale and the Swiss subsidiary Koenig Feinstahl, Klöckner & Co does not operate any steel service centers where steel coils are cut to length or split for large customers on an industrial scale. Direct business in which large, unprocessed deliveries go straight from the manufacturer to the end customer is also only a declining, peripheral business activity.

Letter to shareholders	4
Management Board and Supervisory Board	8
Report of the Supervisory Board	10
Klöckner & Co share	14
Our industries	18
Corporate Governance	24



## OUR INDUSTRIES: CONSTRUCTION INDUSTRY

With a 42% share of sales, the construction industry is Klöckner & Co AG's main sector. With the exception of residential construction in the US, steel and metal products are mainly used in the form of long products in the construction industry. Within the construction industry, Klöckner & Co serves the two main segments of structural construction and building construction and civil engineering. Steel construction primarily uses long products such as beams, hollow steel sections or steel bars. These products are used for load bearing structures such as roofs, floors, walls or bridges. Depending on the size of the customer, the scope of the delivery can range from a single beam to items pre-manufactured for major construction sites. Typical processing services include cutting to length, sandblasting, priming or drilling beams and sections.

The building construction and civil engineering segment is mainly provided with the same products. Reinforcing steel products such as mesh and reinforcing steel are also used for concrete construction applications. In addition to those services listed above, in some countries the range also includes bending ready-to-mount reinforcing steel products.

In some countries Klöckner & Co supplies customers in a number of specific construction industry segments. Examples of these are heating, ventilation and air conditioning, plumbing, roof and wall construction and water supply. The product offering for these segments is particularly extensive with tens of thousands of items.

Klöckner & Co's strategy within the construction industry segment is based on segment specialization and full services from a single source and the expansion of additional services, mainly in the area of processing.

In 2007, business with the construction industry showed significant growth overall though this was coupled with a declining trend. In the US, the effects of the mortgage crisis were reflected in growth rates in the construction industry, particularly in the second half of 2007. The value of new projects in residential construction declined by 24% year-on-year (source: McGraw-Hill Construction 2008). However, given the specific construction methods used in this sector this has no direct relevance for the activities of Klöckner & Co AG. Growth momentum was also in decline in non-residential construction. After growth of 18% based on the value of new projects in 2006, the comparative figure for the end of 2007 was down to only 3% growth (source: McGraw-Hill Construction 2008).

In Europe, the construction industry enjoyed positive growth momentum overall in the markets relevant to Klöckner & Co in 2007 (source: Euroconstruct 2007). This was particularly true for Germany, where non-residential construction almost matched the exceptional 2006 in 2007 with growth of 4%, and the Netherlands, where there was an unusually high growth rate for both residential and non-residential construction (6% and almost 7% respectively). In Switzerland, the sharp rise in non-residential construction as





## The Group 21

Letter to shareholders	4
Management Board and Supervisory Board	8
Report of the Supervisory Board	10
Klöckner & Co share	14
Our industries	18
Corporate Governance	24

against 2006 partially offset a decline in residential construction. This was not the case in Spain. Moderate growth in non-residential construction failed to compensate for the slump in private residential construction, which saw negative growth of -1% again after a long time. Non-residential construction in France and the UK continued its positive performance in 2007 with growth rates of around 4%.

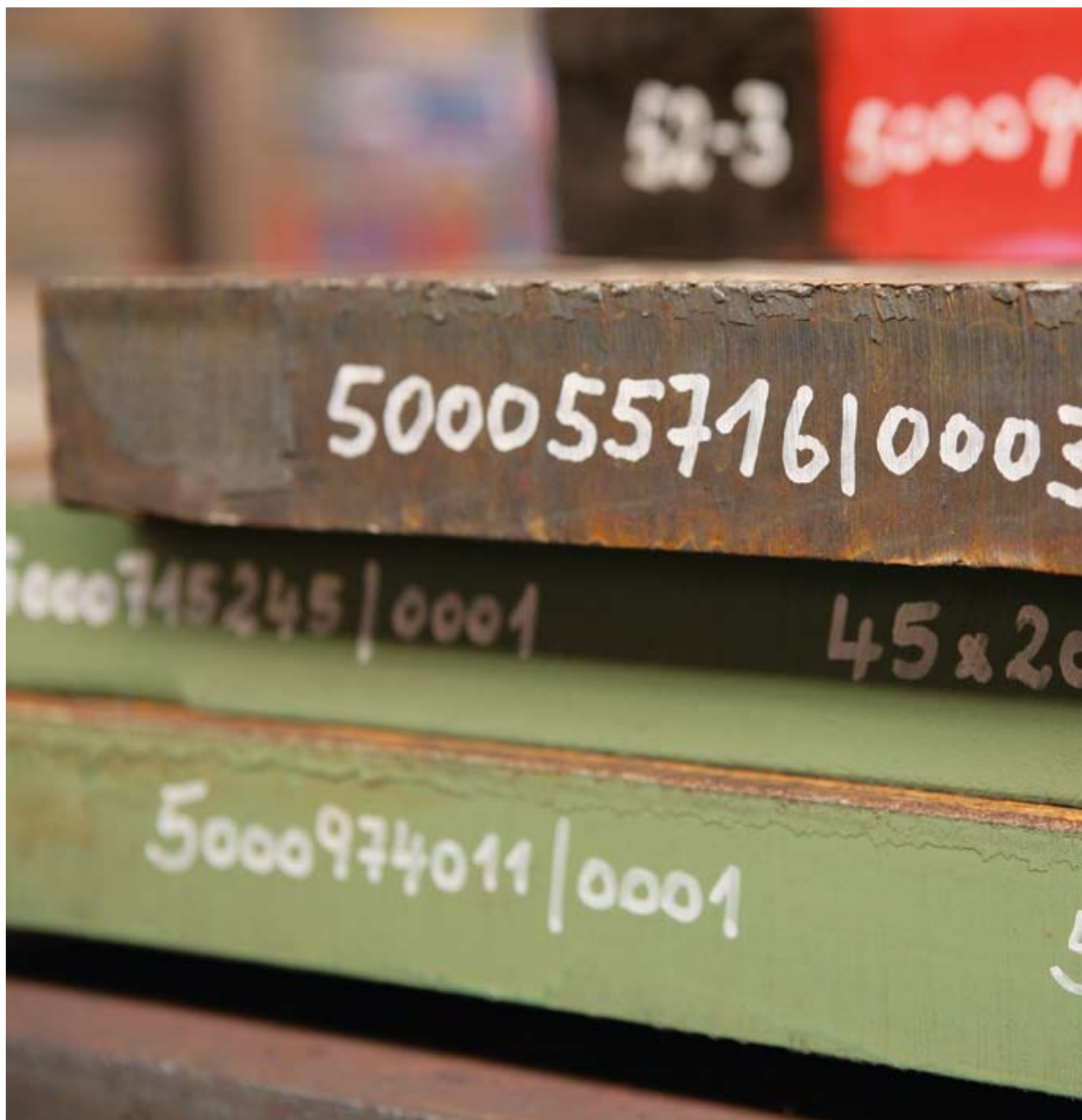
## OUR INDUSTRIES: MACHINERY AND MECHANICAL ENGINEERING

22

With a share of sales of 25%, machinery and mechanical engineering is Klöckner & Co's number two industry. This sector represents one of the main focal points of industrial production. It is highly fragmented and divided into a number of segments. As in the construction industry, steel and metal materials can be found in practically all

end products and in many cases are even a material component.

Klöckner & Co supplies practically all sectors of the machinery and mechanical engineering industry according to the material's broad range of application. Its customers include not only machin-



ery and mechanical engineering providers themselves but also their suppliers. The suppliers frequently focus on certain production stages, such as turning or laser cutting and in turn serve a large number of end product manufacturers. Geographically, this industry clearly focuses on the EU, although machinery and mechanical engineering business in the US received a significant boost from the acquisition of the heavy plate specialist Primary Steel LLC in 2007.

The range of products that Klöckner & Co provides for its machinery and mechanical engineering customers is broadly diversified but focuses on quality and engineering steels, usually in the form of round or bar products. In addition, the company also provides customers with stainless flat and long products, flat and heavy plates, aluminum and pipes. Typical applications for round products are in the production of shafts and gears while flat products are often made into housing parts or coverings. Heavy plates are frequently used in the manufacture of special-purpose vehicles and cranes, long products are used in, for example, carrying structures.

Klöckner & Co also offers comprehensive services in machinery and mechanical engineering such as processing, fast availability of an extensive range or consulting on the selection of materials. In individual cases, processing services can extend as far as carrying out initial processing stages such as turning, grinding and stamping.

Klöckner & Co AG's strategy in machinery and mechanical engineering focuses on developing and expanding segment-specific offerings by rounding off product ranges, particularly with more specialized goods also via selective acquisitions. When the critical mass for a sub-segment is achieved, industry teams will be formed in sales. One example of this is ship and yacht construction. Here customers are advised on a wide range of products by a team of specialist consultants.

A further strategic thrust in machinery and mechanical engineering is expanding processing services, especially in added value partnerships with larger customers.

In financial year 2007, machinery and mechanical engineering developed very well, although the industry as a whole did not quite match the previous years growth level with global growth of around 8% (source: VDMA). High levels of equipment investment in Eastern Europe, Russia, the Arabian states and the emerging markets more than offset the very minor growth of only around 1% in the US (source: VDMA).

## The Group 23

Letter to shareholders 4

Management Board and Supervisory Board 8

Report of the Supervisory Board 10

Klöckner & Co share 14

Our industries 18

Corporate Governance 24

## CORPORATE GOVERNANCE

Klößner & Co supports the goal, pursued by the German Corporate Governance Code (GCGC) for listed companies, of promoting the confidence of national and international investors and of customers, employees and the public in the management and supervision of German listed companies. On December 12, 2007, the Management Board and the Supervisory Board adopted a resolution concerning this declaration of compliance in accordance with section 161 AktG (German Stock Corporation Act). The Corporate Governance Report was issued by both boards on March 31, 2008. In line with section 161 AktG, this statement and the application of the recommendations of the GCGC were audited by the auditor of the company's annual financial statements.

### **Management and control structure**

#### **The Management Board**

The Management Board of Klößner & Co AG consists of one or more members, who are appointed and dismissed by the Supervisory Board in accordance with the provisions of the AktG (German Stock Corporation Act). The Management Board runs the company under its own responsibility. It presently consists of two members, the Chairman of the Management Board, Dr. Thomas Ludwig, and the Chief Financial Officer, Gisbert Rühl. On January 25, 2008, the Supervisory Board made a resolution to appoint Ulrich Becker as a third member on the Management Board. This is to align the highest management of the Group to the importance and scope of future tasks by more intensive work distribution to the operating level.

The work of the Management Board is governed, among other things, by detailed Rules of Procedure adopted by the Supervisory Board, which contain numerous reservations of consent. On September 20, 2007, the Rules of Procedure was aligned to the amended provisions of the German Corporate Governance Code. The catalog of compliance provisions was revised due to gained experience. The internal allocation of responsibilities of the Management Board is in line with the plan devised by the Supervisory Board, which would be amended in view of Management Board expansion. The Rules of Procedure provides for regular board meetings, taking place at least monthly. In 2007, in addition to twenty board meetings, there were numerous coordination meetings between members of the Management Board and meetings with management of international subsidiaries.

#### **Supervisory Board**

The Supervisory Board consists of six members who are elected by the Annual General Meeting. It advises and monitors the management. The Chairman of the Supervisory Board is Prof. Dr. Dieter H. Vogel. To organize its work, the Supervisory Board has formed a three-member Executive Committee and a three-member Audit Committee. The Executive Committee also performs the functions of a Personnel Committee and a Committee for Urgent Matters – in each case with the power to adopt resolutions. Since September 2007, the Executive Committee also functions as the so-called Nomination Committee, a 'search commission' for new members to be elected to the Supervisory Board by the shareholders. The Executive Committee Chairman is Prof. Dr. Dieter H. Vogel.

The Audit Committee is primarily involved in preparing the approval of annual financial statements as well as all questions pertaining to accounting policies, risk management and compliance. Michael W. Dees was the Chairman of the Audit Committee until he retired from the Supervisory Board. Since December 12, 2007, Dr. Hans-Georg Vater has been the Chairman of the Audit Committee.

Due to the relatively few Supervisory Board members, there have been no further committees. In its report to the Annual General Meeting, the Supervisory Board deals at length with its concrete business and focus of work in the financial year as well as personnel changes, in accordance with section 171 (2) AktG (German Stock Corporation Act) (p. 10 ff). It includes presentation of the cooperation with the Management Board as well as the examination of its own efficiency.

### Annual General Meeting

The shareholders of Klöckner & Co AG safeguard their interests and exercise their voting rights in the Annual General Meeting. The first Annual General Meeting after the listing of the company on June 20, 2007 took place in Düsseldorf. On June 20, 2008, the next meeting will also take place in Düsseldorf. With their joint resolution on the German Corporate Governance Code, the Management Board and the Supervisory Board established that the shareholders are to receive all the support and information provided for by law, the Articles of Association and the Code.

### Accounting and Audit

The accounting of the Klöckner & Co Group is in line with the principles of the International Financial Reporting Standards (IFRS). The annual financial statements of Klöckner & Co AG are prepared in accordance with the German Commercial Code (HGB). As provided for by law, the auditor of the single-entity financial statements is elected by the Annual General Meeting. The mandate for the auditor of the single-entity financial statements is prepared by the Audit Committee and discussed and issued by the Supervisory Board pursuant to the German Joint Stock Corporation Act. The corresponding resolution of the Supervisory Board takes place regularly in its September meeting. The Board of Management reports in detail on risk management at the Klöckner & Co Group in the Group Management Report (p. 29 ff).

### Transparency, integrity, compliance

To ensure that shareholders and the public have equal access to comprehensive and timely information, Klöckner & Co primarily deploys the Internet. Reporting on the company's situation and on specific events in the Klöckner & Co Group takes place largely on the basis of interim financial reports after the first, second and third quarter respectively, the Annual Report with the annual financial report, the financial press conference, conference calls with analysts and investors in connection with the publication of the interim reports and the annual financial statements as well as events and numerous discussions with financial analysts and investors in Germany and abroad, and with journalists. The presentations used in the context of such conferences and so-called road shows are published on a timely basis on the homepage of the company. Press releases are also issued as required. The regular dates are published in a financial calendar on the homepage

Letter to shareholders	4
Management Board and Supervisory Board	8
Report of the Supervisory Board	10
Klöckner & Co share	14
Our industries	18
Corporate Governance	24

of the company. Furthermore, certain information that may have a significant effect on the share price of Klöckner & Co AG is announced in the form of ad-hoc disclosures pursuant to the German Securities Trading Act. For the handling of possible ad-hoc procedures that are to be disclosed by law, there is a Group guideline and an internal Expert Committee.

The Klöckner & Co Group is committed to integrity and legitimate conduct in everything it does at every level. To secure and strengthen this objective, the Management Board implemented a compliance guideline approved by the Supervisory Board and appointed a central Compliance Officer. The Group wide Compliance organization is currently being established, and is to be concluded by Summer 2008. At Management Board level, the Management Board Chairman has been allocated the responsibility for questions relating to compliance.

#### **Remuneration Report**

The detailed remuneration report regarding the remuneration system and concrete remuneration of the Management Board and the Supervisory Board in 2007 is shown comprehensively under item 4.3 of the Group Management Report (p. 41).

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

As a general rule, the Management Board and the Supervisory Board have treated the proposals of the Code in the same way as the recommendations. The company has thus complied and continues to comply largely with the proposals contained in the Code. In derogation of the proposals, the Articles of Association of Klöckner & Co AG do not currently provide for remuneration of the Supervisory Board based on long-term perfor-

mance (Art. 5.4.7 GCGC) in addition to its performance-related remuneration based on the consolidated net income. The first time appointment for five years of the additional Management Board member is not regarded as a rule (Art. 5.1.2 sentence 4 GCGC). For Management Board contracts that already existed as of June 2007, when the Code was last changed, no compensation cap in terms of Art. 4.2.3 sentence 9 GCGC exists. These contracts are valid until May 31, 2011. An Internet broadcast of the Annual General Meeting on June 20, 2008 is not planned (Art. 2.3.4 GCGC).

#### **Directors' Dealings**

The members of the Management Board and Supervisory Board, as well as persons closely related to them, are required by section 15a of the German Securities Trading Act to disclose any significant acquisitions or disposals of shares, options and derivatives of Klöckner & Co AG. In 2007, there were a total of six such disclosures, which are published on the company's website and – based on the volume – primarily relating to the gradual reduction of the interest of the former sole shareholder Multi Metal Investment S.á r.l., Luxemburg. The disclosure requirement was triggered in each case by the close relationship between the former major shareholder or its companies and various members of the Supervisory Board. As of February 29, 2008, six further procedures were reported and published.

## STATEMENT OF COMPLIANCE

on December 12, 2007

[Joint Statement of Compliance by the Management Board and Supervisory Board of Klöckner & Co AG pursuant to section 161 AktG, concerning the German Code of Corporate Governance](#)

Other than the following exceptions, the recommendations of the German Corporate Governance Code in the latest version dated June 14, 2007 was and will be complied with:

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

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

[Article 4.2.3 sentences 6 and 8 of the Code \(stock options and similar arrangements\)](#)

Until today, the Management Board's virtual stock option program (Phantom Stocks) is not based on comparative parameters. However, for the tranches to be assigned in future, an absolute cap with regards to the reference price is planned for exercising the virtual share options.

[Article 4.2.5 \(individualized reporting of Management Board remuneration\)](#)

According to a Annual General Meeting resolution on June 7, 2006, the company does not report the remuneration of the individual Management Board members.

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

An age limit has not yet been established for members of the Management Board. Via changes of the Rules of Procedure for the Supervisory Board on September 20, 2007, it was determined that the Management Board members over and above 67 should generally not be appointed.

[Article 5.4.7 sentence 6 \(Individualized reporting of Supervisory Board remuneration\)](#)

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

Duisburg, December 12, 2007

The Supervisory Board

[signed Prof. Dr. Dieter H. Vogel](#)

(Chairman of the Supervisory Board of Klöckner & Co AG)

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

The Group 27

Letter to shareholders 4

Management Board and Supervisory Board 8

Report of the Supervisory Board 10

Klöckner & Co share 14

Our industries 18

Corporate Governance 24





## GROUP MANAGEMENT REPORT 2007

30	An overview of financial year 2007
31	Business and economic conditions
31	Group structure and business operations
32	Corporate strategy
34	General economic framework
35	Sector environment
36	Results of operations, financial position and net assets
36	Results of operations
37	Financial situation, financing, liquidity
39	Net assets, balance sheet structure
40	Overall statement on the current business situation of the Group
40	Key events after the end of the financial year and further information
40	Key events after the reporting date
41	Employees
41	Remuneration report
43	Legal information relating to takeovers
44	Dividend planning
44	Opportunities and risks
44	Opportunity and risk management
45	Short-term and medium-term opportunities and risks
46	Strategic opportunities and risks
47	Overall statement on opportunities and risks
47	Forecast report: Outlook

### Group Management Report 29

Overview	30
Business and economic conditions	31
Results of operations, financial position and net assets	36
Key events after the end of the financial year	40
Opportunities and risks	44
Forecast report: Outlook	47

### 1 An overview of financial year 2007:

- Second best operating result ever
- Expansion by means of company acquisitions successfully continued
- Further improvement in Group financing basis
- Klöckner & Co shares completely in free float
- Overall outlook remains very good

Although 2007 was another good year overall for steel producers and multi metal distribution, development in the two halves of the year differed. For the first six months of 2007, demand was kept high by a strong business trend within customer industries for steel products in Europe and high demand from the emerging markets. In the second six months, multi metal distribution came under increasing pressure in Europe due to weakening demand, high inventories and price erosion for stainless steel. In North America inventory reduction, especially for flat steel, led prices to decline.

As a result in the first half of the year, Klöckner & Co posted a rise in EBITDA year-on-year, while in the second half earnings performance did not match the previous year. However, part of the negative development was compensated for by the scheduled implementation of measures from the STAR efficiency-enhancing program. Despite a 6.1% decline in earnings to €370.7 million, the company generated its second best EBITDA ever. EBIT amounted to €306.8 million and earnings before taxes €209.6 million. The consolidated result before minority interests was €156.1 million.

Due to acquisitions, total sales volume in 2007 rose by 5.7% year-on-year to 6.5 million t, sales by 13.4% to €6.3 billion. The high sales volume failed to fully offset declining margins. However, gross profit was up on the previous year. Thanks to extensive measures designed to improve efficiency, costs in the reporting year increased only moderately.

The objective for 2007 of acquiring ten to twelve profitable small and medium-sized metals and distribution companies with high potential for synergies and growth was achieved ahead of schedule in September 2007. In terms of sales, the focus of expansion was the US, where market share was expanded significantly.

Due to the acquisitions and the increased level of investment holdings, net cash liabilities – including the amounts attributable to Namasco Ltd., Toronto, Canada which are included in assets held for sale or liabilities associated with such assets – increased as against the end of the previous year to €746.4 million. Largely as a result of these acquisitions as of December 31, 2007, the number of employees in the Group was up on the previous year by around 900.

## 2 Business and economic conditions

### 2.1 Group structure and business operations

Klöckner & Co AG is the parent company of the Klöckner & Co corporation and the parent holding company of the Klöckner & Co Group. The company directly or indirectly controls all intermediate holding companies and, through management companies, the Group's national operations in the European and North American segments. The legal structure of the Group was further simplified in 2007. The economic structure of the Group remained unchanged in 2007, but was extended by a number of company acquisitions.

The Klöckner & Co Group is the largest mill-independent steel and metal distributor in the European and North American markets combined. Its core business is warehouse-based distribution of steel and non-ferrous metals. Group companies with over 260 warehouse and processing locations in 15 European and North American countries serve about 210,000 active customers. A typical feature of this business is warehousing a broad and varied product range close to the customer, combined with customer-specific processing activities such as cutting to size and sawing steel and metal products. Business without an inhouse warehousing organization, i.e. deliveries straight from the manufacturer to the customer (known as drop shipments), has been of subordinate importance for Klöckner & Co since 2001.

The subscribed capital of Klöckner & Co AG totals €116.25 million, divided into 46.5 million no-par-value registered shares with full voting rights. The rights and duties are based on the German Joint Stock Corporation Act. Klöckner & Co AG shares have been listed on the Official Market of the Frankfurt Stock Exchange since the end of June 2006 and the shares were, unscheduled, added to Deutsche Börse's MDAX® index on January 29, 2007. The shareholding in Klöckner & Co AG by former sole shareholder Multi Metal Investment S.à r.l., Luxemburg was completely disposed of in two further stages in January and April 2007. Since April 2007, all shares have been held in free float. The largest single shareholding of around 11% as notified is held by the US based Franklin Mutual Advisors, LLC. Other direct or indirect holdings in excess of 10% have not been indicated. Three further shareholders have issued notifications at or slightly above 5%.

On September 20, 2007 the Supervisory Board and the Board of Management of Klöckner & Co AG resolved to propose a transformation from an Aktiengesellschaft (AG – German Stock Corporation) into a European public limited-liability company (SE – Societas Europaea) at the Company's Annual General Meeting in June 2008.

The intended legal form reflects the international position and orientation of the Klöckner & Co Group. The first steps were initiated in the Fall of 2007. The two-tier corporate governance of Supervisory Board and Management Board will be maintained.

Group Management Report	31
Overview	30
Business and economic conditions	31
Results of operations, financial position and net assets	36
Key events after the end of the financial year	40
Opportunities and risks	44
Forecast report: Outlook	47

## 2.2 Corporate strategy

Klöckner & Co's corporate strategy with its two directions

- expansion by means of external and organic growth and
- optimization of business processes

was systematically continued and successfully implemented also in 2007.

### Expansion

As part of the expansion strategy, a total of twelve small and medium-sized multi metal distributors with total annual sales of around €570 million were acquired in 2007. As a result the target of ten to twelve acquisitions was achieved. Compared to 2006, in which a total of four companies were acquired, this represents considerable expansion. This success is also partly due to the centrally monitored but locally implemented M&A approach based on clear selection criteria, particularly with smaller companies. Target companies are selected on the basis of three key objectives – expansion of the geographical presence, the customer base and the product range. One of the key requirements of M&A projects is realizing purchasing synergies and processes supporting the business. In addition, the target companies are valued in line with stringent criteria. The integration of the companies acquired is proceeding as planned.

The acquisitions were carried out by several Group companies. In Europe a total of nine mostly small to medium-sized competitors were acquired. With the acquisition of Tournier Holding SAS, the French Klöckner & Co organization strengthened its position in the area of flat steel. The Dutch subsidiary acquired Teuling Staal, a distributor of stainless steel which specializes in sales of corrosion-resistant, high-alloy stainless steel products. In Germany, Edelstahlservice Frankfurt GmbH was acquired, a company operating in the same business area as Teuling. In addition, as a regional supplement and to reinforce the market position in the south of Germany, the activities of the full-line distributors Max Carl and Stahlhandel Zweggart were acquired.

The UK subsidiary acquired Westok Ltd., a company specializing in the manufacture and distribution of special steel girders used in the construction of floors. Another acquisition in the UK was Interpipe (UK) Ltd., one of the leading British distributors of special steel hollow sections for the construction industry. The Swiss subsidiary acquired Lehner et Tonossi SA, a company which operates primarily in the areas of steel, fastening technology, tools and heating and air conditioning. Furthermore, an agreement to increase the existing 7% interest in the Bulgarian Metalsnab Holding AD headquartered in Sofia to a majority interest of 77.3% resulted in the first controlling stake in Eastern Europe. Metalsnab is Bulgaria's leading full-line distributor and covers all key business locations.

In North America a total of three companies were acquired in 2007. Primary Steel LLC, a company specializing in the distribution and processing of heavy plate, represented the largest acquisition in recent years. For the Klöckner & Co Group this acquisition means a sales increase in the US of more than 60% and rising into the ranks of North America's largest steel and metal distributors. Rounding off business activities on a regional basis, the Klöckner & Co Group subsidiary also acquired the business activities of full-line distributors Premier Steel Inc. and ScanSteel Service Center, Inc.

The successful external expansion strategy will be continued in financial year 2008. Eastern Europe in particular will be weighted more heavily, though excessive price expectations on the seller side frequently represent an obstacle for acquisitions.

In addition to external growth, organic growth of 6.9% was achieved in 2007, despite the closure or consolidation of ten unprofitable locations. The key factor here was corporate acquisition activity. Furthermore, the foundations for future organic growth were laid with the opening of a warehouse location in Poland and preliminary work for new locations in the Czech Republic and Rumania.

### Optimization

Optimizing the business process, the second key area of Klöckner & Co's strategy continued as scheduled in the past financial year. The focus was on the company-wide activities bundled in the value-enhancing STAR program for purchasing, sales and optimization of the distribution network and net working capital, and the difference between inventories and customer receivables on the one hand and supplier liabilities on the other. In the German subsidiary the reorganization of purchasing has now been largely completed. As all national subsidiary companies now operate under a central procurement at country level, the establishment of bundled purchasing has now been initiated at European level. For purchasing, further master agreements were concluded with key suppliers, and the share of third-party countries in purchasing volume further increased.

As in 2006, there was some streamlining of locations in the past financial year. A total of 10 unprofitable locations were closed or merged with other locations. Main activities were the concentration of warehouse sites in the Lyon region of France and of restructuring the Swiss Koenig Feinstahl, focusing on streamlining three sites into one location.

Overview	30
Business and economic conditions	31
Results of operations, financial position and net assets	36
Key events after the end of the financial year	40
Opportunities and risks	44
Forecast report: Outlook	47

As part of further concentrating the core business on distribution of steel and non-ferrous metals to small and medium-sized customers, the disposal of the Canadian organization within the Klöckner & Co Group was initiated in the Fall of 2007. The profitable Namasco Ltd. generated sales of roughly €255.2 million in 2007, operating primarily in processing flat steel for North American automotive manufacturers. Due to structural changes within the industry and the development of the market over the last few years, a positive business trend here was to be expected only when the relevant activities were developed in the US. However, activities of this nature with major customers in the automotive industry are not the core business of the Klöckner & Co Group. The American affiliate, Namasco Corporation, is not affected by this measure.

The company-wide introduction of an automatic, IT-operated process based cost analysis was continued in 2007. The transparency gained in respect of the profitability of processes, products and customers resulted in further measures affecting pricing and net working capital management. To date a total of 27 locations have already been examined in detail. Due to its great success the tool was further integrated into the SAP corporate software. A relevant module should be available as early as 2008. Group implementation of SAP commenced in 2007.

### 2.3 General economic framework

According to figures from the International Monetary Fund, the global economy grew by 5.2% in 2007, somewhat less than in the previous year. However, the generally favorable conditions for materials distribution continued in 2007, particularly in the first half of the year. However, the recent turbulence, triggered primarily by the sub-prime crisis in the US, led to a considerable slowdown in global economic growth, particularly in the fourth quarter of 2007.

Overall, general conditions for material distribution developed less well in North America than in Europe. The structural crisis at traditional US automotive manufacturers continued in 2007, affecting the north of the US and Canada in particular. At the beginning of 2008, it is not yet possible to assess conclusively the impact of the American sub-prime crisis. However, it is clear that the economic development in the US has been visibly hit by weaker consumer and construction demand.

The development, particularly in the European construction industry and i.e. machinery and mechanical engineering, was based on positive high demand in the EU countries, particularly in the first half of 2007. Ongoing and growing demand for steel products and the other materials required for steel production in emerging markets kept prices on the world market at a high level, even though there was a downward trend in the second half of the year. Overall economic growth in 2007

in the most important countries for the Klöckner & Co Group was largely below the good level of the previous year, but did not lead to a dramatic slump. Together with a continuing strong export situation, domestic demand was also on the rise.

## 2.4 Sector environment

Overall, 2007 was another good year for steel producers and multi metal distribution. As in previous years, worldwide consumption of steel and production recorded strong growth. Consolidation among steel producers continued in 2007. Against the previous year there has been no change to the key growth drivers and regions for the steel market – in particular the booming market of the People’s Republic of China.

The current production figures from the International Iron and Steel Institute (IISI) also indicate that steel markets are generally in good condition. The only exception is North America. According to IISI’s figures, crude steel production rose world wide to 1,343.5 million t in 2007, an increase of 7.5% against the previous year and the fifth year in succession where growth has exceeded 7%. As in previous years, growth and the volume of steel production in China again by far surpassed that of other producing nations, rising by 15.7% to 489.0 million t. South Korea generated growth of 6.0%, Germany 2.8%, Japan 3.4% and the European Union (27) 1.7% overall. At –1.4%, the US was again the only major producing nation to post a decline in production. This was due primarily to

service centers and consumers reducing inventories. The world share of crude steel production in 2007 was 36.4% in China, 15.7% in the European Union (27), 8.9% in Japan and 7.2% in the US.

In 2007, trends in steel and metal prices varied according to region and product. In Europe, after a slight increase in the first half of the year, prices for flat products declined, but at the end of the year were still at or even above the high level seen at the start of 2007. Price performance for long products was mixed in 2007. While the high prices for girders continued to rise, bar steel and in particular reinforcing products posted declines – although prices are still at a high level – from the second quarter of 2007. Prices for pipes also dropped in the second half of 2007, but were still above the high level at the start of the year.

Prices for quality steel rose considerably overall by the end of 2007. After an extended rise until July 2007, prices for stainless steel and other products fell by over 30% in the following three months due to the drop in the price of nickel on the London Metal Exchange, only stabilizing at the lower end in the Fall. Starting from a high level, the price of aluminum slumped dramatically over the Summer but stabilized again at a lower level in the fourth quarter of 2007.

Overview	30
Business and economic conditions	31
Results of operations, financial position and net assets	36
Key events after the end of the financial year	40
Opportunities and risks	44
Forecast report: Outlook	47



After a relatively high level of fluctuation during the year, prices for flat products in North America were below the level of the previous year and the start of the current year. After a strong upturn at the end of the first quarter of 2007, prices for North American long products stabilized at a high level during the rest of the year.

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

#### 3.1 Results of operations

##### Sales volume and sales

The total sales volume of the Klöckner & Co Group in 2007 was around 6.5 million t and thus 5.7% above the sales volume for 2006 of around 6.1 million t in total. The Europe segment accounted for 71.2% of the sales volume in 2007, as compared to North America's 28.8%. Adjusted for acquisitions, there was a year-on-year volume

##### Sales volume Klöckner & Co Group

2007	6.5 million t (+ 5.7%)
2006	6.1 million t
2005	5.9 million t

##### Sales Klöckner & Co Group

2007	€6.3 billion (+13.4%)
2006	€5.5 billion
2005*)	€5.0 billion

\*) Pro forma information

decrease in 2007 of 1.4%. This adjusted volume resulted from a rise of 0.6% in Europe and a decline of 7.1% in North America. Including the acquisitions from 2007 – the full impact of which is not yet included in the 2007 results – total sales volume rose by 2.6% against the previous year in Europe and 14.4% in North America.

Group sales increased in the reporting year by 13.4% year-on-year to over €6.3 billion based on quantity, price and acquisitions. The Europe segment accounted for €5.2 billion of sales, the North American for €1.1 billion. In respect to sales of over €500 million generated by the companies acquired as with total sales volume, only a partial amount was posted in 2007 due to the timing of such acquisitions during the year.

##### Earnings

Even though the results of most of the foreign and domestic subsidiaries in 2007 were below the excellent figures of the previous year, they were still highly satisfactory in a longer-term comparison. Group EBITDA declined by 6.1% year-on-year to €370.7 million. This was due to the development of gross profit, which did not follow the higher volume sales and sales trends. The gross profit margin declined from 21.8% in 2006 to 19.5% in 2007. While the steadily rising prices for steel products in the first three quarters of the previous year positively influenced the gross profit margin on the back of the effect of earnings from inventories, some trends ran counter to this, due primarily to the rapid slump in nickel prices in the Summer of 2007. Write-downs on inventories and discounts on sales prices necessary to adjust for the changing market conditions led to unavoidably lower margins in the third quarter of 2007.

Nonetheless, gross profit of €1,220.7 million in 2007 was up 1.1% on the previous year's excellent figure.

However, in the reporting year the slightly improved gross profit figure was not sufficient overall to compensate for the higher costs (largely acquisition-driven), negative exchange rate effects of €6.2 million, expenses for the virtual stock option program and restructuring expenses. The improvements achieved in the STAR program only partially offset the opposing effects.

The decline in EBITDA affected both the Group's reporting segments: In Europe, EBITDA dropped by 10.9% to €326.2 million. In North America, despite higher business volume due to acquisitions which did not affect the entire reporting period, there was an 18.2% decrease to €64.5 million. Net costs for Group headquarters totaled –€20.0 million.

As with EBITDA, EBIT in 2007 declined by 9.0% year-on-year to €306.8 million. The year-on-year downturn in earnings before taxes of 23.2% to €209.6 million and in consolidated results before minority interests of 33.5% to €156.1 million is also due to non-recurring charges for the repayment of the high-yield bond, which totaled €38.5 million in the second quarter of 2007, as well as due to higher taxes. Excluding non-recurring financing charges, which will reduce future interest expenses and which have already considerably widened the Group's financing scope, the decline in the earnings before taxes figure would have been only 9.1% and thus approximately in line with the business-driven decrease. The Group's

operating results were €305.3 million compared to €336.8 million in the previous year. The Europe segment accounts for €230.4 million of consolidated income before taxes, the North American segment for €34.0 million and headquarters for –€54.8 million.

### 3.2 Financial situation, financing, liquidity

Group financing is essentially carried out centrally. Funds are allocated within the framework of inter group financing and bilateral credit facilities. Within the Group, working capital is financed largely on the basis of a centrally controlled, cross-border European Asset-backed-securization-program (ABS program) with a total volume of €420 million and a term until mid-2010 as well as an American ABS program of \$ 125 million and a term until mid-2012. The US program was largely utilized as of the balance sheet date, while over 50% of the European program was used for the subsidiaries in Germany, the UK, France, the Netherlands and Spain. The central financing program is supplemented by bilateral credit facilities, the Group's internal financial compensation and liquidity management in the Group is processed by a cross-border cash pooling system. The Swiss country operation, in which minority shareholders had an interest in 2007, had its own financing cycle. The financing of the Group, including working capital financing for the current business activities of the individual foreign and domestic operations, was again in 2007 secured at all times.

Overview	30
Business and economic conditions	31
Results of operations, financial position and net assets	36
Key events after the end of the financial year	40
Opportunities and risks	44
Forecast report: Outlook	47

In order to support the acquisition strategy, further key steps were taken in 2007 to optimize Group financing. In the second quarter of 2007, a syndicated holding loan of €600 million was successfully placed with a syndicate of German and international banks. The proceeds were in part used to fully redeem the 10.5% interest bearing high-yield bond of remaining €170 million which was issued as part of the change of owners in 2005.

Furthermore, on the basis of a resolution of the Annual General Meeting on June 20, 2007, Klöckner & Co successfully issued a convertible bond of €325 million via a Luxemburg subsidiary on July 18, 2007. As intended, the sole subscribers were institutional investors. The bond was guaranteed by Klöckner & Co AG, has a term of five years and a coupon of 1.5% p.a. The conversion price was set at €80.75. This corresponds to a premium of 35% on the reference price of €59.81 per share on issuance.

The agreements relating to financial liabilities include covenants which obligate the borrower to take or desist from specific actions and to maintain financial ratios. They also contain rights of termination in line with customary market practice for similar agreements. The respective covenants have been globally complied with by the Klöckner & Co Group.

Utilization of the working capital facilities in the form of cash credit lines and ABS programs amounted to €619 million or around 42% at the end of the reporting year as compared to €304 million or about 35% in the previous year. Taking into account available cash and cash equivalents, the net cash indebtedness resulting from the business activities of the Klöckner & Co Group amounted to €746 million at the end of 2007 €382 million more than the comparable previous year's figure. The increase of net cash indebtedness is due primarily to acquisitions of subsidiaries and the purchase of further shares in Debrunner Koenig Holding AG.

The Group's key performance indicators are net cash indebtedness, EBITDA and cash flow. Securing liquidity in 2007 was controlled by means of internally defined key figures geared, among other things, to a minimum equity ratio, maximum debt retirement period and a minimum degree of interest coverage. Handling of risks in financial activities is regulated by a Group-wide financial directive. Derivative financial instruments are used to hedge against interest and currency risks. These instruments are exclusively used to hedge against risks in connection with underlyings and not for speculation purposes. Subsidiaries identify their foreign currency exposure and hedge against them regularly on a central basis, or, if applicable, via individual foreign currency lines with banks. Interest risks are also monitored centrally and hedged against or limited.

The Group's operating business results in interest rate, foreign currency and credit risks. Instruments to hedge against and manage these risks and their impact on operating results are described in detail in the information on IFRS 7 contained in the notes to the 2007 consolidated financial statements.

### 3.3 Net assets, balance sheet structure

While the acquisitions concluded in 2007 are only partially reflected in the income statement, the balance sheet shows the full effect of such business combinations. The increase in consolidated total assets from €2,551.7 million at the end of 2006 to €2,966.2 million at the end of 2007 is largely due to acquisitions, the continuing good business performance and the higher level of prices. The balance sheet presentation of assets and liabilities was revised to reflect reclassifications to assets held for sale and liabilities associated with such assets for the amounts attributable to Namasco Ltd., Toronto, Canada. The largest increases on the assets side were intangible assets and inventories. Key increases on the liabilities side related to financial liabilities. Overall, as of December 31, 2007, the Group's reported net working capital – including working capital attributable to Namasco Ltd. – increased by €188.2 million year-on-year to €1,322.6 million.

Including the increase in the majority interest in the Swiss Debrunner Koenig Holding AG, a total of €371.9 million was invested in acquisitions (before deducting the funds acquired) in 2007, €5.8 million of which has not yet been recognized in cash. These investments and the higher level of net working capital resulted in a rise in net cash liabilities from €381.6 million at the start of the year to €746.4 million as of December 31, 2007. Compared to the peak of €996.1 million at the end of June 2007, there was, however, a considerable reduction in the second half of 2007.

The equity-assets ratio was around 124% as of December 31, 2007. Including long-term borrowed funds, the excess of such funds over non-current assets amounts to €1,261.6 million. The ABS programs in the Klöckner & Co Group are fully recognized in the balance sheet. Group equity, including minority interests, amounted to €844.9 million on December 31, 2007. In 2007, the Group's equity ratio declined from 31.3% to 28.5%, largely due to the purchase of the minority interests in the Swiss subsidiary Debrunner Koenig Holding AG, the rise in total assets and the distribution of dividends.

Overview	30
Business and economic conditions	31
Results of operations, financial position and net assets	36
Key events after the end of the financial year	40
Opportunities and risks	44
Forecast report: Outlook	47

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

Based on available information when preparing the Group management report at the end of February 2008, the business situation of the Group remains continuously good compared to 2007. Further statements on the expected development are contained in the risk report and the forecast report at the end of this management report (sections 5 and 6).

## 4 Key events after the end of the financial year and further information

### 4.1 Key events after the reporting date

- In the middle of January 2008, Klöckner & Co AG acquired a further 20.1% of shares in the Swiss Group company Debrunner Koenig Holding AG, St. Gallen, (DKH). With these additional shares, Klöckner & Co now holds 98.1% of all shares in the Swiss subsidiary of the Klöckner & Co Group. In May 2007, Klöckner & Co had increased its interest by 18.1% to 78.0%. DKH has been part of the Klöckner & Co Group since 1992 and has always operated highly profitably. The increased stake not only allows to participate even more strongly in the Swiss organization, but also opens up other options for optimizing Group financing.
- The disposal of the Canadian organization was initiated in 2007 and it is expected that the process will be concluded in the first half of 2008. In 2007, it generated 11.4% of global sales volume, but only 4.1% in sales due to the high level of purely reworking transactions.
- In January 2008, through its UK subsidiary, Klöckner & Co acquired Multitube Ltd., a distribution company headquartered in Brierley Hills, West Midlands. Multitube specializes in the distribution and processing of welded tubes used in many industrial sectors. In 2007, sales amounted to €5 million.
- On January 25, 2008, with the appointment of a further member, the Supervisory Board of the company extended the Management Board from two to three members. The new member of the Management Board will assume regional operating responsibility for Europe and functional responsibility for purchasing. With extended management capacity at Management Board level, the appointment ensures the strategic expansion and optimization of the Group.

## 4.2 Employees

In 2007, human resources work in the Klöckner & Co Group again took place primarily at the level of national operations to ensure better consideration to regional features of the business and the staff. In this context, the human resources work of the holding company again formed the worldwide framework for support and development, particularly for top management and junior managerial staff, and for further development of the performance-based remuneration systems.

Due partly to the acquisitions and also to the ongoing good business situation in terms of sales volume, the number of employees in the Klöckner & Co Group was 10,581 at the end of 2007, around 900 more than the same time in the previous year. This net figure included approximately 750 new employees resulting from acquisitions, most of which relate to the North America segment. As of the end of 2007, the companies of the Europe segment and headquarters employed 8,953 staff, while 1,628 staff were employed in the North American segment.

## 4.3 Remuneration report

The remuneration report of the Group management report is also a part of the corporate governance report (p. 24 ff).

### Management Board

Remuneration for the Management Board comprises three components: fixed basic remuneration per year, a variable annual bonus depending on the achievement of goals set jointly with the Supervisory Board at the beginning of the financial year and a medium- to long-term virtual stock option program. In addition, the members of the Management Board are entitled to pension benefits according to the regulations of the Essener Verband as well as further benefits, such as a company car, accident insurance, etc. to the customary extent.

The virtual stock option program for the two Management Board members in 2007 consists of five annual tranches, each of 186,000 phantom stock options. The strike price of the first allotment in 2006 was the price at the initial public offering of €16 per share. This price increases for each subsequent tranche by 5% of the previous year's strike price, i.e. it will rise to €19.45 per share by the fifth tranche. The virtual stock options of each tranche can be exercised annually, though not before a period of 30 stock trading days after the Annual General Meeting following allotment of the tranche. Subsequently, the options of the relevant tranches may be exercised in full or in part at any time. For the first tranche Klöckner & Co AG's payment obligations corresponded to the difference between the average trading price of the last 30 trading days (XETRA trading, Deutsche Börse AG, Frankfurt a. M.) prior to exercising the option and the value at grant.

Overview	30
Business and economic conditions	31
Results of operations, financial position and net assets	36
Key events after the end of the financial year	40
Opportunities and risks	44
Forecast report: Outlook	47

The total income of the Management Board of Klöckner & Co AG in accordance with section 314 (6) of the German Commercial Code amounts to €5,760 thousand for 2007, with €2,800 thousand relating to the fair value of the second tranche of the virtual stock option program which has been allocated but not exercised. In addition, the Management Board exercised virtual stock options with a value of €7,591 thousand from the first tranche of the virtual stock option program. There was no remuneration for former members of the Management Board or any surviving dependants.

To supplement the existing phantom stock option program with a cap option in line with Article 4.2.3 of the German Corporate Governance Code, the Supervisory Board and Management Board agreed in Fall 2007 to an adjustment of the method for Management Board remuneration. As this adjustment affects the contracts of the two Management Board members that run until May 31, 2011, the Supervisory Board resolved to increase the comparatively low fixed remuneration and pension commitments of the two members of the Management Board and to add a change-of-control clause to the contracts of the Management Board members, allowing the two Management Board members to resign from office in the event of a change of control. Should this right be exercised, they will be entitled to payment of the target annual salary (including target bonuses) to the end of the term of the agreement, but not exceeding three times the annual figure. In addition, all virtual stock options which have not been allocated up to this point in time shall be deemed allocated. At this point in time, the two Management Board members receive the right to exercise these virtual stock options in full.

The remuneration agreement with the new Management Board member fully complies with the German Corporate Governance Code. The virtual stock option program has five tranches and a cap. The respective issue price was modified such that this is calculated on the basis of the average share price to the end of the year before allocation.

### Supervisory Board

According to Article 13 of the Articles of Association published on the Company's website, the remuneration of the Supervisory Board consists of a fixed and a variable component which are paid pro rata temporis in the event of changes in the financial year. Furthermore, reasonable expenses and value added tax are reimbursed. The base meeting fee is €2,000 per meeting. All amounts are due after the end of the Annual General Meeting in the following year.

The fixed annual remuneration for a financial year is €17,000. A variable remuneration component of €150 is paid for each full €1 million by which the consolidated net profit exceeds the amount of €50 million. The Supervisory Board Chairman receives three times and his or her deputy twice the remuneration described above. The variable remuneration paid to each member of the Supervisory Board may not exceed the amount of the fixed remuneration by more than 100%. Committee work including holding the position of Chairman or Deputy Chairman only affects remuneration in terms of meeting fees. There are no virtual stock options for the Supervisory Board. The total income of the Supervisory Board in accordance with section 314 (1) no. 6 of the German Commercial Code (HGB) amounts to €401 thousand for 2007.

#### 4.4 Legal information relating to takeovers

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

- (1) The subscribed capital of Klöckner & Co AG totals €116.25 million, divided into 46.5 million no-par-value registered shares with full voting rights. The rights and duties are based on the German Joint Stock Corporation Act.
- (2) The Management Board knows of no restrictions relating to the voting rights or transfer of shares – including agreements between shareholders.
- (3) The interest of the US based Franklin Mutual Advisors, LLC in Klöckner & Co AG has been approximately 10.81% per notification of March 2007. Other direct or indirect participations in the capital of Klöckner & Co AG exceeding 10% of the voting rights have not been reported to the company.
- (4) There are no special rights as defined by this provision.
- (5) There are no voting right control regulations as defined by this provision.
- (6) The Management Board of Klöckner & Co AG consists of one or more members, who are appointed and discharged by the Supervisory Board in accordance with the provisions of the German Joint Stock Corporation Act. Amendments to the Articles of Association are exclusively subject to the German Joint Stock Corporation Act and require – except for changes in the business subject – a simple majority of the share capital represented during voting in

accordance with section 18 para. 2 and section 179 AktG. Article 20 of the company's Articles of Association authorizes the Supervisory Board to make certain formal changes to the Articles of Association itself if necessary.

- (7) The Management Board of Klöckner & Co AG is authorized by the Articles of Association to increase the share capital by up to €50 million until June 20, 2011 by issuing new no-par-value registered shares on one or several occasions against cash or non-cash contributions with the approval of the Supervisory Board. Further details are regulated by Article 4 (2) of the Articles of Association. In addition, in line with section 71 para. 1 no. 8 AktG and in accordance with the resolution of the Annual General Meeting on June 20, 2007, the company is authorized to acquire treasury stock up to a level of 10% of the relevant share capital of €116.25 million until December 19, 2008.
- (8) The other regulations of the convertible bond issued in 2007 of €325 million allow for an early redemption by the holder in the event of a change of control. The redemption amount is based on the nominal value plus accrued interest. A change of control is deemed to have occurred if, among other things, a person or jointly acting persons obtain directly or indirectly economic title to more than 50% of the voting interest of the company. Under the same conditions the individual lenders under the €600 million multi currency revolving credit facility, modified in May 2007, may request payment of the respective outstanding amount. Other major credit arrangements also contain customary change-of-control clauses.

Overview	30
Business and economic conditions	31
Results of operations, financial position and net assets	36
Key events after the end of the financial year	40
Opportunities and risks	44
Forecast report: Outlook	47



- (9) The members of the Board of Management in 2007 are entitled to resign from the Board with a notice period of 6 months if a threshold of 30% of the voting stock is exceeded. In this case the board members are entitled to receive their individual target salary (including target bonuses) until the expiration of their term (May 31, 2011), capped at three times of the annual salary. Virtual stock options granted but not issued to that date vest immediately and may be exercised in full.

#### 4.5 Dividend planning

The proposed dividend payout for 2007 is based on the target distribution of 30% of the consolidated net profit after deduction of special items, particularly from divestments such as disposals of subsidiaries or real estate as announced at the IPO and implemented for the 2006 financial year. A rounded figure for the 2007 dividend of €0.80 per share has been calculated on the basis of this reference amount in accordance with the consolidated financial statements.

After covering the expenses of Klöckner & Co AG and appropriating €11.3 million of the consolidated net income of €48.5 million to retained earnings, an unappropriated surplus of €37.2 million remains. The latter is sufficient to distribute a dividend of €0.80 per share. The Management Board and Supervisory Board propose to the Annual General Meeting that the unappropriated surplus of €37.2 million be used for distribute a dividend of €0.80 per share.

## 5 Opportunities and risks

### 5.1 Opportunity and risk management

The current risk monitoring system at Klöckner & Co requires cross-border information updated on a daily basis on the development of purchase and sales prices of the product groups. The available quantities of the individual product groups, driven primarily by demand, including the related inventory risks, are observed and controlled on the basis of IT-based key figures until final completion of an order. After delivery of the products the receivables are subject to strict customer credit management. In most countries, risks of default are cushioned primarily by means of commercial credit insurance.

The systematic recording, identification and monitoring of opportunities and risks is constantly adapted to changing requirements and were also applied and further improved Group-wide during the period under review. The core tool of risk reporting and risk monitoring is the updating of identified opportunities and risks on a quarterly basis by means of an opportunities/risks report. Communication and explanation of the formalized documents are carried out quarterly and on a case-by-case basis. The Management Board reports to the Supervisory Board (as the superordinate controlling and advisory body) through meetings of the Supervisory Board and committees, monthly management reports and monthly meetings with the Chairman of the Supervisory Board.

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

Due to the price slump for stainless steel products in the third quarter of 2007, a detailed examination of the options for hedging the change in nickel prices was examined with the support of a consultancy company but was rejected by Klöckner & Co. Ultimately, all practical models for hedging the nickel price were too expensive and too complex in relation to their potential benefit for Klöckner & Co. The optimized inventory management which is already in place will limit risks more strongly in future. In contrast to hedging the price of nickel, hedging risks from future tranches of the virtual stock option program for Management Board members and selected employees proved to be beneficial and was thus introduced in January 2008.

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

The decline in the momentum of US growth in the last quarter of 2007 continued at the beginning of 2008. In the euro zone, after generally positive development in the second half of 2007, growth slowed overall at the beginning of this year. For 2008 as a whole, reduced, but still satisfactory growth is anticipated, despite a possible recessionary trend in the US.

Steel markets have not been as badly affected by the difficult overall economic situation and remain in good condition as excellent utilization levels are being posted for the industrial segments that are important for steel products – i.e. machinery and mechanical engineering – in 2008. Low inventory levels, particularly in the US, declining imports and stable demand have already resulted in some massive price increases at the beginning of 2008. Due to considerably higher raw material costs, steel producers have already announced further price increases at the start of the second quarter of 2008. Steel distributors will benefit strongly from this development as rising prices mean additional inventory gains and not just passing higher raw material prices on to the market, as is the case for manufacturers.

Overview	30
Business and economic conditions	31
Results of operations, financial position and net assets	36
Key events after the end of the financial year	40
Opportunities and risks	44
Forecast report: Outlook	47

The Management Board assumes that all identifiable risks are secured against by way of adequate provisions at the level of the respective Group company and the holding company and/or through guarantees of third parties. Known matters of importance in the Group remain the Balli issue and antitrust investigations against an associated company in France. The legal dispute in connection with a pre-emption option of a minority shareholder at DKH in Switzerland is no longer relevant following the acquisition of these shares by Klöckner & Co in May 2007.

From today's perspective, there is a good chance that global economic growth momentum will pick up again after 2008. For most countries the 2009 growth forecasts are indicating a slightly higher figure than for 2008. In addition, good opportunities for steady growth are forecast for the world steel markets, with cyclical fluctuations which should by no means be as strong as in the past. In this context, as of the present moment no business slump is evident in respect of the business outlook in the developed industrial countries in 2009.

### 5.3 Strategic opportunities and risks

The basic Klöckner & Co Group corporate strategy with its two directions of expansion and optimization was described in section 2.2 of this management report. The expansion strategy with its targeted acquisition of suitable competitors makes it possible to participate successfully in the current consolidation of the industry in the traditional industrial countries with mature market structures. The expansion into the adjoining markets of Eastern and South Eastern Europe offers additional attractive growth potential. The main risk of expansion through acquisitions is prompt integration for realizing synergy effects.

In addition to the risk of declining economic growth, the overall market risk is made up primarily of an imbalance between supply and demand, due largely to overcapacity and a lack of production adjustment. The resulting decline in prices could result in lower margins and also to inventory write-downs. The key countermeasure here is inventory management in line with demand trends. The IISI anticipates that growing demand for infrastructure investments and rising purchasing power not only in China and India, but also in Central and Eastern Europe and South America as well as in the oil producing countries, will favor the development of the steel industry in the longer term.

## 5.4 Overall statement on opportunities and risks

The Management Board is of the opinion that Klöckner & Co has a well-functioning system for managing opportunities and risks, a system whose improvement is being advanced on an ongoing basis. All known accounting risks have been recorded sufficiently. The short to medium-term market risks are manageable. No risks have been identified which could jeopardize the company as a going concern.

## 6 Forecast report: Outlook

For 2008, the Management Board expects that the global growth trend will be weaker than in the previous year, with the risk of a stronger downturn due to the sub-prime crisis in the US. In this context, a recession in the US cannot be ruled out in the first half of the year. However, an economic recovery is expected for the second half of the year. At the same time, a positive economic performance is expected in the euro zone, even if momentum is set to slow.

Despite forecasts of weaker economic development in 2008, the outlook for steel distribution is still considered very positive, at least in the first half of 2008. This is due to a favorable development of supply and demand. In view of the price increases for steel products realized in the first quarter of 2008 and those forecast for the second quarter, Klöckner & Co is expecting good business development in the first half of 2008. Even if the development in the second half of the year cannot be foreseen due to global economic risks, the current trend indicates a favorable result for 2008 as a whole.

For 2009 the forecast expects an upward movement which, however, will not match the old momentum especially for the US. If under this scenario the steel markets develop as currently expected, management expects a positive business development also for 2009.

Duisburg, February 29, 2008

The Management Board

<b>Group Management Report</b>	<b>47</b>
Overview	30
Business and economic conditions	31
Results of operations, financial position and net assets	36
Key events after the end of the financial year	40
Opportunities and risks	44
Forecast report: Outlook	47

*"With its innovative products, the acquisition of Westok will supplement the broad offering of the UK operation, expand its customer base and generate far-reaching synergies"*

Martin Joyce, CEO of Klöckner UK, Great Britain

Westok Ltd., Wakefield, UK, was acquired by the British Klöckner & Co country operation Klöckner UK in 2007. Klöckner UK operates in the UK metal distribution sector mainly under the name ASD metal services.



### Commitment to the UK market strengthened

Westok specializes in the production and distribution of special steel girders referred to as cellular beams, which are used in the construction of floors, providing lightweight and flexible solutions for multi-storey buildings. Westok supplies its innovative products to the rapidly expanding construction industry in the UK.

The acquisition of Westok enabled Klöckner & Co to increase its UK product offering in addition to increasing its customer base in the British market. The additional acquisitions of Interpipe in Fall 2007 followed by the purchase of Multitubes at the start of 2008 further supports the company's growth course in the UK and Ireland.



*"With a total of seven distribution locations in Bulgaria and an excellent customer base, we will continue to strengthen our position in the Balkans."*

Ralf Oberhuber, Head of Sales Eastern Europe, Klöckner & Co AG, Germany  
Klöckner Metalsnab AD, Sofia, Bulgaria (formerly Metalsnab Holding AD) was acquired in 2008 by Klöckner & Co AG, Germany, as a new country operation. Klöckner & Co is the majority shareholder of Klöckner Metalsnab after the increase of its existing 7% stake to a majority shareholding of approximately 77% was contractually secured in 2007.



### Further expansion in Eastern Europe

The increase of its stake in Klöckner Metalsnab to a majority shareholding of approximately 77% marked the successful conclusion of the first major takeover in Eastern Europe. The most important product groups of the distribution company Klöckner Metalsnab include long products, flat steel and pipes. The company's key customers are drawn from the construction industry and the mechanical and plant engineering sector. The company is headquartered in Sofia. A total of seven distribution centers throughout Bulgaria serve the country's most important industrial locations. The acquisition forms the ideal basis on which to further expand the Group's activities in the Balkans.





*"The acquisition of Tournier has strengthened our activities in the flat steel sector in France and has generated synergies."*

Philippe Muller, CEO of Klöckner Distribution Industrielle S.A. (KDI), France  
Tournier Holding SAS, Paris, France was purchased in 2007 by the Klöckner & Co country operation KDI in France.



**Position strengthened in the flat steel sector**

French distribution company Tournier specializes in the processing and selling of flat steel products. Together with the flat steel specialists Targe already acquired during 2006, the acquisition of Tournier expands the flat steel activities of the French Klöckner & Co country operation KDI while also delivering significant synergies as a result.



*"The acquisition of Primary puts us among the top ten steel and metal distributors in North America."*

Mark Breckheimer, member of the Managing Board of Namasco Corporation, US  
Primary Steel LLC, Middletown, US, was bought by Klöckner & Co's North American operation Namasco in 2007.



**Market strength in the US significantly enhanced**

Steel distribution company Primary Steel acquired in 2007 operates a total of seven branches in North America and specializes in the distribution and pre-processing of steel plates for mechanical and plant engineering applications. For the Klöckner & Co Group, this acquisition translates into a sales increase of over 60% in the US and promotes the Group to the top ten largest North American steel and metal distributors. Together with the Premier Steel and ScanSteel companies, which were also taken over in the US during 2007, the purchase of Primary Steel forms a solid basis for future growth in North America.



## CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

57	Declaration of the Management Board
58	Auditor's report
59	Consolidated statement of income
60	Consolidated balance sheet
63	Consolidated statement of cash flows
64	Summary of changes in equity
66	Notes to the consolidated financial statements
114	Other offices held by members of the Management Board and the Supervisory Board
118	Consolidated Group companies and joint ventures
122	Individual financial statements
125	Profit distribution proposal
126	Glossary

## DECLARATION OF THE MANAGEMENT BOARD

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

To the best of our knowledge, and in accordance with International Financial Reporting Standards (IFRS), the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report 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 29, 2008

The Management Board



Dr. Thomas Ludwig  
Chairman of the Management Board



Gisbert Rühl  
Chief Financial Officer

Consolidated financial statements	57
Declaration of the Management Board	57
Auditor's report	58
Consolidated statement of income	59
Consolidated balance sheet	60
Consolidated statement of cash flows	63
Summary of changes in equity	64
Notes	66
Other offices held	114
Consolidated Group companies	118
Individual financial statements	122
Profit distribution proposal	125
Glossary	126

## AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the Klöckner & Co AG, Duisburg, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2007. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to section 315a para. 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 HGB (Handelsgesetzbuch "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) as well as supplementary consideration of International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and

the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

Cologne  
March 7, 2008

KPMG Hartkopf + Rentrop Treuhand KG  
Wirtschaftsprüfungsgesellschaft

Philippi  
Wirtschaftsprüfer

Michels-Scholz  
Wirtschaftsprüfer

**KLÖCKNER & CO AKTIENGESELLSCHAFT**  
**Consolidated statement of income**  
**for the 12 months period ending December 31, 2007**

(€ thousand)	Notes	2007	2006
Sales	(6)	6,274,143	5,532,486
Other operating income	(7)	96,689	93,873
Change in inventory		4,434	25
Own work capitalized		40	89
Cost of materials	(8)	-5,057,937	-4,324,963
Personnel expenses	(9)	-509,160	-477,905
Depreciation and amortization		-63,571	-57,802
Impairment losses		-287	-336
Other operating expenses	(10)	-439,029	-428,644
<b>Operating result</b>		<b>305,322</b>	<b>336,823</b>
Income from investments	(11)	1,484	424
Finance income		4,998	4,838
Finance expenses		-102,169	-69,090
<b>Financial result</b>	(12)	<b>-97,171</b>	<b>-64,252</b>
<b>Income before taxes</b>		<b>209,635</b>	<b>272,995</b>
Income taxes	(13)	-53,579	-38,396
<b>Net income</b>		<b>156,056</b>	<b>234,599</b>
thereof attributable to			
– shareholders of Klöckner & Co AG		133,385	206,232
– minority interest		22,671	28,367
<b>Earnings per share</b>	(14)		
– basic		<b>2.87</b>	<b>4.44</b>
– diluted		<b>2.87</b>	<b>4.44</b>

<b>Consolidated financial statements</b>	<b>59</b>
Declaration of the Management Board	57
Auditor's report	58
Consolidated statement of income	59
Consolidated balance sheet	60
Consolidated statement of cash flows	63
Summary of changes in equity	64
Notes	66
Other offices held	114
Consolidated Group companies	118
Individual financial statements	122
Profit distribution proposal	125
Glossary	126



KLÖCKNER & CO AKTIENGESELLSCHAFT  
 Consolidated balance sheet as of December 31, 2007

Assets

(€ thousand)	Notes	December 31, 2007	December 31, 2006
<b>Non-current assets</b>			
Intangible assets	(15a)	197,581	32,229
Property, plant and equipment	(15b)	482,138	500,548
Financial assets	(15c)	2,661	4,578
Other assets	(18)	19,736	13,456
Deferred tax assets	(13)	33,336	28,670
<b>Total non-current assets</b>		<b>735,452</b>	<b>579,481</b>
<b>Current assets</b>			
Inventories	(16)	955,644	841,029
Trade receivables	(17)	929,964	932,898
Income tax receivable	(13)	6,572	8,373
Other assets	(18)	86,367	49,384
Cash and cash equivalent	(19)	153,558	130,156
Non-current assets held for sale	(20)	98,596	10,387
<b>Total current assets</b>		<b>2,230,701</b>	<b>1,972,227</b>
<b>Total assets</b>		<b>2,966,153</b>	<b>2,551,708</b>

## Equity and liabilities

(€ thousand)	Notes	December 31, 2007	December 31, 2006
<b>Equity</b>			
Subscribed capital		116,250	116,250
Capital reserves		260,496	197,699
Retained earnings		412,227	381,915
Accumulated other comprehensive income		-28,332	-9,204
<b>Equity attributable to shareholders of Klöckner &amp; Co AG</b>		<b>760,641</b>	<b>686,660</b>
Minority interests		84,283	112,789
<b>Total equity</b>	(21)	<b>844,924</b>	<b>799,449</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Provisions for pensions and similar obligations	(23)	188,457	192,642
Provisions	(24)	59,151	55,256
Income tax liabilities	(13)	92	34
Financial liabilities	(25)	813,076	416,161
Other liabilities	(27)	8,962	8,746
Deferred tax liabilities	(13)	82,364	70,746
<b>Total non-current liabilities</b>		<b>1,152,102</b>	<b>743,585</b>
<b>Current liabilities</b>			
Other provisions	(24)	144,355	186,272
Income tax liabilities	(13)	18,223	28,754
Financial liabilities	(25)	72,644	64,707
Trade payables	(26)	609,863	639,444
Other liabilities	(27)	91,748	89,497
Liabilities associated with non-current assets held for sale	(20)	32,294	0
<b>Total current liabilities</b>		<b>969,127</b>	<b>1,008,674</b>
<b>Total liabilities</b>		<b>2,121,229</b>	<b>1,752,259</b>
<b>Total equity and liabilities</b>		<b>2,966,153</b>	<b>2,551,708</b>

Declaration of the Management Board	57
Auditor's report	58
Consolidated statement of income	59
Consolidated balance sheet	60
Consolidated statement of cash flows	63
Summary of changes in equity	64
Notes	66
Other offices held	114
Consolidated Group companies	118
Individual financial statements	122
Profit distribution proposal	125
Glossary	126



**KLÖCKNER & CO AKTIENGESELLSCHAFT**  
**Consolidated statement of cash flows**  
**for the period from January 1 to December 31, 2007**

(€ thousand)	2007	2006
Results before taxes	209,635	272,995
Interest and impairment losses on investments	97,172	64,252
Depreciation, amortization, impairments and reversal of impairments	63,873	57,497
Other non-cash income and expenses	-3,375	-134
Gain on disposal of non-current assets	-39,549	-40,234
<b>Operating cash flow</b>	<b>327,756</b>	<b>354,376</b>
Changes in provisions	-46,469	8,693
Changes in other current assets and liabilities		
Inventories	-70,783	-159,680
Trade receivables	29,176	-133,607
Other current assets	-17,930	-761
Trade payables	-63,584	98,548
Other current liabilities	-545	10,088
Income taxes paid	-49,117	-45,685
<b>Cash flow from operating activities</b>	<b>108,504</b>	<b>131,972</b>
Proceeds from the sale of non-current assets and assets held for sale	38,314	101,900
Payments for intangible assets, property, plant and equipment	-60,697	-47,849
Acquisition of subsidiaries	-355,833	-44,073
<b>Cash flow from investing activities</b>	<b>-378,216</b>	<b>9,978</b>
Capital increase	62,098	98,412
Dividends paid		
shareholders of Klöckner & Co AG	-37,200	0
Minority interests	-9,579	-6,123
Borrowings	1,270,021	221,789
Repayment of financial liabilities	-912,862	-357,959
Interest paid	-81,943	-49,834
Interest received	4,312	3,717
<b>Cash flow from financing activities</b>	<b>294,847</b>	<b>-89,998</b>
<b>Changes in cash and cash equivalents</b>	<b>25,135</b>	<b>51,952</b>
Effect of foreign exchange rates on cash and cash equivalents	-1,733	-1,348
Cash and cash equivalents at the beginning of the period	130,156	79,552
<b>Cash and cash equivalents at the end of the period</b>	<b>153,558</b>	<b>130,156</b>

<b>Consolidated financial statements</b>	<b>63</b>
Declaration of the Management Board	57
Auditor's report	58
Consolidated statement of income	59
Consolidated balance sheet	60
<b>Consolidated statement of cash flows</b>	<b>63</b>
Summary of changes in equity	64
Notes	66
Other offices held	114
Consolidated Group companies	118
Individual financial statements	122
Profit distribution proposal	125
Glossary	126

## KLÖCKNER & CO AKTIENGESELLSCHAFT

### Summary of changes in equity

(€ thousand)	Subscribed capital Klöckner & Co AG	Capital reserves Klöckner & Co AG
<b>Balance as of January 1, 2006</b>	<b>25</b>	<b>44,649</b>
Income/expenses directly recognized in equity		
Foreign currency translation		
Net income		
<b>Comprehensive income</b>		
Contributions to capital reserves		156,003
Dividends from capital reserves		-2,953
Issue of shares	116,225	
Dividends		
Other changes		
<b>Balance as of December 31, 2006</b>	<b>116,250</b>	<b>197,699</b>
<b>Balance as of January 1, 2007</b>	<b>116,250</b>	<b>197,699</b>
Income/expenses directly recognized in equity		
Foreign currency translation		
Gain-/loss from cash flow hedges		
Related income tax		
Net income		
<b>Comprehensive income</b>		
Acquisition of minority interests		
Equity component of convertible bond		62,797
Dividends		
Other changes		
<b>Balance as of December 31, 2007</b>	<b>116,250</b>	<b>260,496</b>

Retained earnings	Accumulated other comprehensive income		Equity attributable to shareholders of Klöckner & Co AG	Minority interest	Total
	Currency translation adjustment	Fair value adjustments of financial investments			
<b>179,106</b>	<b>6,606</b>		<b>230,386</b>	<b>92,722</b>	<b>323,108</b>
	- 15,810		- 15,810	- 2,469	- 18,279
206,232			206,232	28,367	234,599
			<b>190,422</b>		
			156,003		156,003
			- 2,953		- 2,953
- 3,409			112,816		112,816
				- 6,123	- 6,123
- 14			- 14	292	278
<b>381,915</b>	<b>- 9,204</b>		<b>686,660</b>	<b>112,789</b>	<b>799,449</b>
<b>381,915</b>	<b>- 9,204</b>		<b>686,660</b>	<b>112,789</b>	<b>799,449</b>
	- 18,645		- 18,645	- 1,872	- 20,517
		- 858	- 858		- 858
	112	263	375		375
133,385			133,385	22,671	156,056
			<b>114,257</b>		
- 66,493			- 66,493	- 39,725	- 106,218
- 490			62,307		62,307
- 37,200			- 37,200	- 9,579	- 46,779
1,110			1,110		1,110
<b>412,227</b>	<b>- 27,737</b>	<b>- 595</b>	<b>760,641</b>	<b>84,283</b>	<b>844,924</b>

Declaration of the Management Board	57
Auditor's report	58
Consolidated statement of income	59
Consolidated balance sheet	60
Consolidated statement of cash flows	63
Summary of changes in equity	64
Notes	66
Other offices held	114
Consolidated Group companies	118
Individual financial statements	122
Profit distribution proposal	125
Glossary	126

## KLÖCKNER & CO AKTIENGESELLSCHAFT

### Notes to the consolidated financial statements of Klöckner & Co AG, Duisburg, as of December 31, 2007

#### (1) Company information

Klöckner & Co Aktiengesellschaft ("Klöckner & Co" or "the Company"), entered in the commercial register of the Duisburg Local Court under HRB 18561, is a listed corporation domiciled in Duisburg, Am Silberpalais 1. The consolidated financial statements of Klöckner & Co AG and its subsidiaries ("Klöckner & Co Group" or "Group") were authorized for issuance to the Supervisory Board by way of resolution of the Management Board on February 29, 2008. The Supervisory Board's responsibility is to audit such financial statements and to issue a statement as to whether it will approve the consolidated financial statements.

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

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

#### (2) Accounting policies

The consolidated financial statements as of December 31, 2007 were prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the EU, and the additional requirements of the German Commercial Code ("HGB") pursuant to section 315a (1) HGB. All binding IFRS and the associated interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") as of December 31, 2007 were applied.

The consolidated financial statements of the companies included in the consolidated financial statements, all of which have been prepared as of December 31, 2007, are based on uniform accounting policies.

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

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

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

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

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

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

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

The scope of consolidated companies changed as follows:

	2007	2006
Consolidated companies at the beginning of the financial year	138	143
+ Acquisitions	18	6
+ Newly formed/consolidated companies	7	1
- Mergers	-8	-6
- Disposals and liquidations	-1	-6
Consolidated companies at the end of the financial year	154	138
Thereof German companies (including Klöckner & Co AG)	13	12

As part of the legal restructuring of the activities in Belgium and the Netherlands, the Belgian companies O-D-S N.V. ("O-D-S") and ODS Metals N.V. ("ODS Metals"), each domiciled in Antwerp, Belgium, which were excluded from consolidation for reasons of materiality, have been included in the consolidated financial statement as of December 31, 2007.

#### Associated companies

An associated company is an entity over which Klöckner & Co has significant influence by participating in its financial and operating policy decisions but which it does not control. A significant influence is assumed to exist when Klöckner & Co directly or indirectly holds more than 20% but less than 50% of the voting rights.

Until disposal in the third quarter of 2007, Metalix B.V., Rotterdam, Netherlands ("Metalix B.V.") was accounted for as an associated company using the equity method.

Under the equity method investments in associated companies are carried at cost as adjusted for post acquisition changes in the Group's share of the net assets of the investee. Proportionate losses exceeding the carrying amount of the associated company are not recognized unless an obligation to compensate such losses exists. Any goodwill recognized upon acquisition is included in the carrying amount of the investee. Unrealized intercompany profits from transactions with associated companies carried at equity are eliminated.

A list of the material affiliated companies included in the consolidated financial statements is attached as an annex. A list of all the shareholdings of Klöckner & Co AG will be published in the electronic Federal Gazette.

#### (4) Significant accounting policies

##### Business combinations

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

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

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

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

Declaration of the Management Board	57
Auditor's report	58
Consolidated statement of income	59
Consolidated balance sheet	60
Consolidated statement of cash flows	63
Summary of changes in equity	64
Notes	66
Other offices held	114
Consolidated Group companies	118
Individual financial statements	122
Profit distribution proposal	125
Glossary	126



### Foreign currency translation

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

Applying the functional currency concept, the annual financial statements of the foreign subsidiaries prepared in foreign currency are translated into euro. The functional currency is determined by the primary eco-

nomie environment in which the Company operates. All subsidiaries conduct their business independently in their domestic markets. As such, the functional currency for those entities is the local currency. The assets and liabilities of subsidiaries are translated at the middle rate on the balance sheet date, expenses and income are translated at the average exchange rate of the reporting period. Differences arising from such translations applied to the assets, liabilities and components of net income are reported as a separate component of equity and accordingly do not have an impact on net income.

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

1 € =	Year-end rate		Average rate	
	Dec. 31, 2007	Dec. 31, 2006	2007	2006
US Dollar (USD)	1.4721	1.3170	1.3704	1.2557
Pound Sterling (GBP)	0.7333	0.6715	0.6843	0.6817
Swiss Franc (CHF)	1.6547	1.6069	1.6427	1.5729
Canadian Dollar (CAD)	1.4449	1.5281	1.4678	1.4237

### Revenue recognition

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

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

### Share-based payment

The Group' share based compensation plans are virtual stock option plans with cash settlement ("VOP"). As of the respective reporting date, a provision is recognized pro rata temporis in the amount of the fair value of the payment obligation; any subsequent change in the fair value is recognized in profit or loss. The fair value of the virtual share options is calculated on the basis of a binominal option pricing model using the following parameters:

Per cent	
Risk-free rate of return	4.6
Expected volatility	56.0

### Earnings per share

Earnings per share are calculated by dividing net income for the year attributable to shareholders of Klöckner & Co AG by the average number of shares outstanding during the period. The dilutive, potential shares of the convertible bond issued in 2007 have been included in the calculation of diluted earnings.

### Income taxes

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

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

Deferred taxes are calculated in line with the concept of the balance sheet liability method. Deferred tax assets result from temporary differences in the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profits and from consolidation entries. Such deferred tax assets or liabilities are not recognized if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that neither affects taxable profits or the accounting profits.

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

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

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

Declaration of the Management Board	57
Auditor's report	58
Consolidated statement of income	59
Consolidated balance sheet	60
Consolidated statement of cash flows	63
Summary of changes in equity	64
Notes	66
Other offices held	114
Consolidated Group companies	118
Individual financial statements	122
Profit distribution proposal	125
Glossary	126

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

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

#### **Intangible assets**

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

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

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

Maintenance and repair costs are expensed as incurred.

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

Depreciation is based on the following useful lives:

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

#### **Leases**

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

#### **Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine if there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss. The recoverable amount is the higher of the fair value less costs to sell and the value in use. In those instances in which the recoverable amount for the specific asset cannot be estimated, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to that extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no

impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in income.

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

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

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

#### Inventories

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

#### Financial instruments

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

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

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

Declaration of the Management Board	57
Auditor's report	58
Consolidated statement of income	59
Consolidated balance sheet	60
Consolidated statement of cash flows	63
Summary of changes in equity	64
Notes	66
Other offices held	114
Consolidated Group companies	118
Individual financial statements	122
Profit distribution proposal	125
Glossary	126

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

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

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

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

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

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

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

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

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

The components of compound financial instruments such as the convertible bond issued in 2007 are recognized separately as financial liabilities and equity. The fair value of the liability component was calculated using a market interest rate for equivalent financial instruments without conversion rights. Subsequent accounting of the liability component will be on an amortized cost basis until conversion or maturity of the bond. In line with the residual method the remaining difference represents the equity component which is reported within capital reserves with no subsequent adjustment.

Financial liabilities are either classified as fair value through profit or loss or other financial liabilities.

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

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

#### b) Derivative financial instruments

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

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

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

Interest rate swap amounts from interest rate swap agreements are recognized in the income statement at the payment date or the balance sheet date. In addition, interest swap agreements as well as interest rate caps are carried at their fair value as of the balance sheet date, and, provided that hedge-accounting is applied, changes in the fair values are recognized in the income statement for the current reporting period.

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

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

Declaration of the Management Board	57
Auditor's report	58
Consolidated statement of income	59
Consolidated balance sheet	60
Consolidated statement of cash flows	63
Summary of changes in equity	64
Notes	66
Other offices held	114
Consolidated Group companies	118
Individual financial statements	122
Profit distribution proposal	125
Glossary	126

### c) Hedge accounting

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

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

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

#### Cash flow hedges

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

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

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

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

### Provisions for pensions and similar obligations

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

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

The service costs are reported in personnel expenses, the interest costs in interest expense.

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

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

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

#### Other provisions

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

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

#### Contingent liabilities

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise or that represent a present

obligation that arises from past events but is not recognized because it is not probable that an outflow of resources will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Unless the possibility of any outflow in settlement is remote a description of the nature of the contingent liability is provided.

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

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

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

#### Use of estimates

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

Declaration of the Management Board	57
Auditor's report	58
Consolidated statement of income	59
Consolidated balance sheet	60
Consolidated statement of cash flows	63
Summary of changes in equity	64
Notes	66
Other offices held	114
Consolidated Group companies	118
Individual financial statements	122
Profit distribution proposal	125
Glossary	126



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

Since the beginning of the financial year, the application of IFRS 7 (Financial Instruments: Disclosures) has been mandatory. The application of the standard did not have any effect on the net assets, financial position and results of operations but resulted in additional information in the notes to the consolidated financial statements.

The International Accounting Standards Board (IASB) and IFRIC have issued standards and interpretations whose application is not yet mandatory in the reporting period. The application of the standards and interpretations is subject to endorsement by the EU, which for certain standards and interpretation is yet outstanding.

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

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

The interpretation IFRIC 14 (The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction), which was published in July 2007, provides general guidance on how to assess the limit in IAS 19 on the amount of the surplus of a pension plan that can be recognized as an assets. It also explains how statutory or contractual minimum funding requirements can affect pension assets or liabilities. The interpretation is to be applied for financial years beginning on or after January 1, 2008. Klöckner & Co is currently investigating the effects of the first-time application of the interpretation on the consolidated financial statements.

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

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

## (5) Acquisitions and disposals

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

### Significant acquisitions

In April 2007, Namasco Corporation, Wilmington, Delaware, USA signed an agreement to purchase a 100% stake in the distribution corporation Primary Steel LLC ("Primary"), with head offices in Middletown, Connecticut, USA, and two subsidiaries. Since closing on May 11, 2007 Primary has been consolidated. The cost of the acquisition amounts to €179.8 million. Primary operates seven branches in North America and employs some 400 staff. Primary's contribution to the Group's net income, including effects of the purchase price allocation and interest on the financing, amounts to –€2.8 million and pro-rata sales were €237.9 million. If the entity had been consolidated effective January 1, 2007, the consolidated sales and net income would be higher by €136.5 million and €0.9 million, respectively. Upon completion of the purchase price allocation a goodwill of €69.9 million was recognized representing future earnings expectations and access to regions in which the Klöckner Group had not previously been represented. Separately from goodwill, customer relationships and a trade name were recognized at €63.6 million.

### Other acquisitions

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

\*) Asset deal

In addition, in August 2007 further 70% of Metalsnab Holding AD, Sofia, Bulgaria was acquired in addition to the previously held 7.3% stake. As the transaction had not been closed as of the balance sheet, control had not been transferred to Klöckner & Co and the entity has therefore not been consolidated as of December 31, 2007.

Declaration of the Management Board	57
Auditor's report	58
Consolidated statement of income	59
Consolidated balance sheet	60
Consolidated statement of cash flows	63
Summary of changes in equity	64
<b>Notes</b>	<b>66</b>
Other offices held	114
Consolidated Group companies	118
Individual financial statements	122
Profit distribution proposal	125
Glossary	126

The acquired assets and liabilities of the companies that were initially consolidated in 2007 are allocated as follows:

(€ million)	Carrying amounts before/after first-time consolidation							
	Non-current assets		Current assets		Non-current liabilities		Current liabilities	
	Before	After	Before	After	Before	After	Before	After
Europe	19.6	66.0	58.9	59.4	0.9	11.8	40.6	40.6
North America								
Primary Steel LLC	10.1	146.7	128.0	128.4	0.0	1.5	93.6	93.9
Other acquisitions	1.6	9.5	5.9	6.1	0.0	0.0	1.5	1.5
<b>Total</b>	<b>31.3</b>	<b>222.2</b>	<b>192.8</b>	<b>193.9</b>	<b>0.9</b>	<b>13.3</b>	<b>135.7</b>	<b>136.0</b>

Business combinations excluding the acquisition of further stakes in Debrunner Koenig Holding AG, St. Gallen, Switzerland resulted in acquisition costs of €265,653 thousand, €5,790 thousand of which have not yet impacted cash. Cash and cash equivalents acquired amount to a total of €10,248 thousand.

Non-current assets acquired include intangible assets such as customer relationships, brands, patents and similar assets, totaling €104,890 thousand.

The purchase price allocations, some of which are due to potential purchase price adjustments yet provisional, resulted in goodwill of €87,648 thousand. Excess of the Klöckner's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of €1,850 thousand was posted under other operating income.

The contribution of the acquired companies including the effects of the purchase price allocation to consolidated net income was –€217 thousand; the contribution to consolidated revenues amounts to €355.1 million. Assuming that all the acquisitions would have occurred at the beginning of the financial year, sales would have amounted to €6,464.2 million with consolidated net income of €159.0 million.

Adjustments to the purchase price of the AESGA Group in 2006 increased goodwill for these entities by €571 thousand to €4,673 thousand.

With agreement dated May 31, 2007, Klöckner & Co Beteiligungs GmbH acquired a further stake of 18.1% in Debrunner Koenig Holding AG, St. Gallen, Switzerland (DKH) and holds a 78.0% stake as of December 31, 2007. As a result of this transaction, the minority interests were reduced by €39.7 million. The difference between the acquired net assets in DKH and the purchase price was debited to the controlling equity interest thus not affecting net income. Accordingly the equity attributable to shareholders of Klöckner & Co AG was reduced by €66.5 million.

In July 2007, Klöckner & Co sold 49% of its interest in Klöckner Information Services GmbH (KIS) to the IT-consultant Bitempo AG, Düsseldorf. Under the share purchase agreement Bitempo has been granted a put option for its shares. The put option has been recognized at the present value of the obligation (€0.4 million) and is included in other liabilities.

## Notes to the consolidated income statement

### (6) Sales

Group sales are broken down by region as follows:

(€ thousand)	2007	2006
Germany	1,430,031	1,247,180
EU excluding Germany	2,905,313	2,632,337
Rest of Europe	760,105	702,716
North America	1,079,119	866,819
Central and South America	8,966	4,927
Asia/Australia	21,448	20,539
Africa	69,161	57,968
<b>Sales by region</b>	<b>6,274,143</b>	<b>5,532,486</b>

### (7) Other operating income

(€ thousand)	2007	2006
Foreign currency exchange gains	5,642	3,210
Reversal of provisions	22,847	8,643
Gain on sale of non-current assets	39,948	41,305
Income from impaired receivables	3,975	3,252
Rental income	3,631	3,026
Excess of net assets over the purchase price of acquired subsidiaries	5,068	412
Other income	15,578	34,025
<b>Other operating income</b>	<b>96,689</b>	<b>93,873</b>

The gain on sale of non-current assets relates with €25,671 thousand to the sale of the Valencia premises of the Spain sub-group.

Excess of net assets over the purchase price of acquired subsidiaries mainly comprises the acquisition of O-D-S and ODS Metals (€3,211 thousand) and the acquisitions of Teuling Staal B.V, Barendrecht, Netherlands, and the business activities of Max Carl GmbH & Co KG, Coburg, and Zweggart Fachhandelsgruppe GmbH & Co. KG, Stuttgart (€1,850 thousand).

Other income comprises €2,504 thousand payments in excess for which the statute of limitation has been exceeded or credits which are not offset from/to customers and uncharged supplier deliveries and services as well as several income items each in the amount of less than €1.5 million. Last year's amount related with €9,803 million to compensation payments received.

Foreign currency exchange gains and losses resulting from the extension of group internal financial receivables or financial liabilities are presented on a net basis. As such foreign currency exchange gains of €13,452 thousand (2006: €4,834 thousand) and foreign currency exchange losses of €13,519 thousand (2006: €4,992 thousand) have been offset and are presented either as other income or other expenses, respectively.

### (8) Cost of materials

(€ thousand)	2007	2006
Cost of materials and supplies, and purchased merchandise	5,050,163	4,317,067
Cost of purchased services	7,774	7,896
<b>Cost of materials</b>	<b>5,057,937</b>	<b>4,324,963</b>

### (9) Personnel expenses

(€ thousand)	2007	2006
Wages and salaries	412,964	385,394
Social security contributions and expenses for welfare benefits	80,384	78,395
Retirement benefit cost	15,812	14,116
<b>Staff costs</b>	<b>509,160</b>	<b>477,905</b>

The increase in personnel expenses is primarily due to share-based payments and the acquisition of Primary.

The majority of the personnel expenses relate to remuneration, which comprises wages, salaries, compensation and all other remuneration for work performed by employees of the Group in the financial year. The mandatory statutory contributions to be borne by the Company, including in particular social security contributions, are reported under social security contributions.

Declaration of the Management Board	57
Auditor's report	58
Consolidated statement of income	59
Consolidated balance sheet	60
Consolidated statement of cash flows	63
Summary of changes in equity	64
Notes	66
Other offices held	114
Consolidated Group companies	118
Individual financial statements	122
Profit distribution proposal	125
Glossary	126

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

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

	2007	2006
Salaried employees	5,434	5,266
Wage earners	4,586	4,126
Apprentices	274	271
Trainees, military and civilian service recruits, etc.	148	197
	<b>10,442</b>	<b>9,860</b>

#### (10) Other operating expenses

(€ thousand)	2007	2006
Forwarding costs (transportation logistics)	108,832	100,793
Rents and leases	66,344	61,193
Repairs and maintenance	49,315	46,087
Third-party services	34,526	34,145
Supplies	37,468	33,803
Audit fees and consulting	18,449	26,381
Other taxes	19,768	19,154
Travel costs	16,438	15,816
Postal charges and telecommunications	9,551	10,234
Bad debt expense	5,261	9,518
Credit insurance	9,814	9,252
Other Insurance	9,939	9,075
Advertising and representation expenses	9,117	8,860
Foreign exchange rate losses	5,828	3,220
Other expenses	38,379	41,113
<b>Other operating expenses</b>	<b>439,029</b>	<b>428,644</b>

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

#### (11) Income from investments

(€ thousand)	2007	2006
Income from investments	1,484	–
Income from companies accounted for under the equity method	–	424
<b>Income from investments</b>	<b>1,484</b>	<b>424</b>

#### (12) Financial result

(€ thousand)	2007	2006
Income from non-current securities and long-term loans	12	49
Other interest and similar income	4,986	4,789
Interest and similar expenses	–95,296	–61,818
Interest cost for post-employment benefits	–6,858	–7,263
<b>Interest income, net</b>	<b>–97,156</b>	<b>–64,243</b>
Impairment losses for non-current securities	–15	–9
<b>Financial result</b>	<b>–97,171</b>	<b>–64,252</b>

In view of the further optimization of the Klöckner & Co Group's financing structure, the outstanding high yield bond of €170,000 thousand (2006: €90,000 thousand) was repaid on June 15, 2007. This resulted in early repayment charges and redemption costs of €32,893 thousand (2006: €9,450 thousand) and the related amortization of deferred transaction costs totaling €5,631 thousand (2006: €3,297 thousand), which were recognized in interest and similar expenses.

### (13) Income taxes

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

The income taxes comprise current and deferred taxes.

The utilization of tax loss carryforwards resulted in increased income tax expense of €5,787 thousand in 2007 due to the corresponding release of deferred tax assets. The first time recognition of deferred tax assets for loss carryforwards in 2007 led to a deferred tax benefit of €10,162 thousand.

Of the 2007 tax benefit €2,628 thousand related to prior periods.

In the financial years 2007 and 2006, the income tax expense for the Klöckner & Co Group is broken down as follows:

(€ thousand)	2007	2006
<b>Current income tax expense</b>	<b>55,016</b>	<b>58,563</b>
Expense (Germany)	351	2,196
Expense (foreign)	54,665	56,367
<b>Deferred income tax income</b>	<b>-1,437</b>	<b>-20,167</b>
Expense/benefit (Germany)	1,296	-12,206
Benefit (foreign)	-2,733	-7,961
<b>Income tax expense</b>	<b>53,579</b>	<b>38,396</b>

Following the approval of the 2008 corporate tax reform act by the Bundesrat (upper house of the German parliament) in July 2007, the combined income tax rate will be reduced from 39% to 30.71% effective January 1, 2008; the future corporate income tax rate including the solidarity surcharge will be 15.83% (2006: 26.38% or 20.63% taking into account the deductibility of trade tax) and the trade tax rate for Klöckner & Co will be 14.88% (2006: 18.37%).

For 2007 and 2006, tax expense applying the theoretical tax rate varies from the recorded amounts. A reconciliation to the effective tax rate is as follows:

(€ thousand)	2007	2006
Expected tax rate	39.00%	39.00%
<b>Income before income taxes</b>	<b>209,634</b>	<b>272,995</b>
Expected tax expense at domestic tax rate	81,757	106,468
Foreign tax rate differential	-19,242	-21,992
Reduced tax rate	-5,109	-4,573
Tax rate changes	1,505	-5,401
Tax reduction due to tax-free income	-1,542	-10,390
Tax increase due to non-deductible expenses	5,322	3,965
Current income tax levied for prior periods	-2,628	-5,807
Permanent differences	803	1,266
Excess of net assets over the purchase price of acquired subsidiaries	-1,094	-142
Tax reduction due to first-time recognition of deferred tax assets on loss carryforwards and temporary differences related to prior periods	-7,958	-23,857
Tax decrease due to non-capitalization of deferred tax assets on loss carryforwards and temporary differences in prior periods	-1,809	-
Tax increase due to non-capitalization of deferred taxes on loss carryforwards	204	-
Tax increase due to Group internal transfer of company shares	2,694	-
Other tax effects	676	-1,141
<b>Effective income taxes</b>	<b>53,579</b>	<b>38,396</b>
<b>Effective tax rate</b>	<b>25.56%</b>	<b>14.06%</b>

Declaration of the Management Board	57
Auditor's report	58
Consolidated statement of income	59
Consolidated balance sheet	60
Consolidated statement of cash flows	63
Summary of changes in equity	64
Notes	66
Other offices held	114
Consolidated Group companies	118
Individual financial statements	122
Profit distribution proposal	125
Glossary	126

## b) Taxes recognized directly in equity

Current and deferred taxes are generally recognized as income or expense and included in the net profit or loss for the period, except to the extent that the tax arises from a transaction or event which is recognized, in the same or a different period, directly in equity. Taxes recognized directly in equity amounted to €585 thousand (2006: €2,179 thousand).

## c) Deferred tax assets and liabilities

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

(€ thousand)	Dec. 31, 2007	Dec. 31, 2006
Deferred tax assets	33,336	28,670
Deferred tax liabilities	82,364	70,746
<b>Deferred taxes, net</b>	<b>-49,028</b>	<b>-42,076</b>

Deferred tax assets and liabilities arise from the following:

ASSETS (€ thousand)	Dec. 31, 2007	Dec. 31, 2006
From temporary differences and consolidation operations	19,528	18,982
Intangible assets	3,219	2,250
Property, plant and equipment	-1,227	-67
Financial assets	-	420
Inventories	2,439	-130
Provisions for pensions and similar obligations	9,614	11,375
Other provisions and accrued liabilities	3,060	3,280
Other items	2,423	1,854
From tax loss carryforwards	13,808	9,688
<b>Deferred tax assets</b>	<b>33,336</b>	<b>28,670</b>

EQUITY AND LIABILITIES (€ thousand)	Dec. 31, 2007	Dec. 31, 2006
From temporary differences and consolidation operations	82,364	70,746
Intangible assets	9,835	1,333
Property, plant and equipment	42,075	40,883
Receivables and other assets	1,923	2,101
Inventories	19,937	17,735
Assets held for sale	-	1,549
Provisions for pensions and similar obligations	-5,935	-5,834
Other provisions and accrued liabilities	15,469	13,379
Other items	-940	-400
<b>Deferred tax liabilities</b>	<b>82,364</b>	<b>70,746</b>

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

Unused tax loss carryforwards as of the reporting date amount to €228.5 million (2006: €227.1 million) for corporate income tax losses of foreign and domestic entities and trade tax losses of €114.1 million (2006: €123.9 million). Corporate income tax losses incurred by foreign and domestic subsidiaries of €185.4 million (2006: €198.2 million) and trade tax losses of €58.9 million (2006: €109.1 million) were not recognized because it is not probable that they will be used. The major part of the loss carryforwards does not expire under the current tax regulations, unless specific circumstances arise (e.g. change of control). To the extent loss carryforwards do expire, this will not occur prior to 2013.

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

Deferred tax assets were not recognized for temporary differences amounting to €130.4 million (2006: €155.5 million) at December 31, 2007, as is not probable that the benefits can be realized.

Unrecognized deferred tax assets are as follows:

(€ thousand)	Dec. 31, 2007	Dec. 31, 2006
Temporary differences	40,038	60,639
Tax losses not yet utilized	42,925	61,320

#### d) Current tax

Tax receivables of €6,572 thousand were recorded in the balance sheet for expected tax refunds.

The income tax payables comprise liabilities of €323 thousand, if the payment obligation is nearly certain, and provisions of €17,992 thousand, if uncertainty exists concerning the amount or the date of payment.

#### (14) Earnings per share

	2007	2006
Net income attributable to shareholders of Klöckner & Co AG (€ thousand)	133,385	206,232
Weighted average number of shares (thousands of shares)	46,500	46,500
<b>Basic earnings per share (€/share)</b>	<b>2.87</b>	<b>4.44</b>
Net income attributable to shareholders of Klöckner & Co AG (€ thousand)	133,385	206,232
Interest expense on convertible bond (net of tax) (€ thousand)	4,888	–
Net income used to determine diluted earnings per share (€ thousand)	138,273	206,232
Weighted average number of shares (thousands of shares)	46,500	46,500
Dilutive potential shares from convertible bond (thousands of shares)	1,742	–
Weighted average number of shares for diluted earnings per share (€ thousand)	48,242	46,500
<b>Diluted earnings per share (€/share)</b>	<b>2.87</b>	<b>4.44</b>

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

Declaration of the Management Board	57
Auditor's report	58
Consolidated statement of income	59
Consolidated balance sheet	60
Consolidated statement of cash flows	63
Summary of changes in equity	64
Notes	66
Other offices held	114
Consolidated Group companies	118
Individual financial statements	122
Profit distribution proposal	125
Glossary	126



## Notes to the consolidated balance sheet

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

## a) Intangible assets

## Cost

(€ thousand)	Industrial property rights and similar rights, licenses and other intangible assets	Software	Goodwill	Total intangible assets
<b>As of Jan. 1, 2007</b>	<b>22,137</b>	<b>14,145</b>	<b>10,298</b>	<b>46,580</b>
Exchange rate differences	-8,147	-238	-7,299	-15,684
Additions/disposals due to changes in the scope of consolidation	104,881	70	88,219	193,170
Additions	68	3,358	-	3,426
Disposals	-	918	-	918
<b>As of Dec. 31, 2007</b>	<b>118,939</b>	<b>16,417</b>	<b>91,218</b>	<b>226,574</b>

## Accumulated amortization and impairments

(€ thousand)	Industrial property rights and similar rights, licenses and other intangible assets	Software	Goodwill	Total intangible assets
<b>As of Jan. 1, 2007</b>	<b>3,808</b>	<b>10,543</b>	<b>-</b>	<b>14,351</b>
Exchange rate differences	-758	-179	-	-937
Additions/disposals due to changes in the scope of consolidation	-	61	-	61
Amortization and Impairments	14,340	2,095	-	16,435
Disposals	-	917	-	917
<b>As of Dec. 31, 2007</b>	<b>17,390</b>	<b>11,603</b>	<b>-</b>	<b>28,993</b>
<b>Book value as of Dec. 31, 2007</b>	<b>101,549</b>	<b>4,814</b>	<b>91,218</b>	<b>197,581</b>
Book value as of Dec. 31, 2006	18,329	3,602	10,298	32,229

## b) Property, plant and equipment

**Cost**

(€ thousand)	Land, leasehold rights and buildings including buildings on third-party land	Technical equipment and machinery	Other equipment, operating and office equipment	Construction in progress	Total property, plant and equipment
<b>As of Jan. 1, 2007</b>	<b>658,606</b>	<b>249,335</b>	<b>213,109</b>	<b>17,725</b>	<b>1,138,775</b>
Exchange rate differences	- 10,390	- 5,558	- 3,669	- 583	- 20,200
Additions/disposals due to changes in the scope of consolidation	16,587	11,620	7,188	8	35,403
Additions	22,378	12,923	12,867	8,782	56,950
Disposals	37,302	14,510	12,848	75	64,735
Transfers	6,549	1,531	2,875	- 10,955	-
Reclassification to non-current assets held for sale	- 24,254	- 38,600	- 9,948	- 124	- 72,926
<b>As of Dec. 31, 2007</b>	<b>632,174</b>	<b>216,741</b>	<b>209,574</b>	<b>14,778</b>	<b>1,073,267</b>

**Accumulated depreciation and impairments**

(€ thousand)	Land, leasehold rights and buildings including buildings on third-party land	Technical equipment and machinery	Other equipment, operating and office equipment	Construction in progress	Total property, plant and equipment
<b>As of Jan. 1, 2007</b>	<b>290,610</b>	<b>179,496</b>	<b>168,121</b>	<b>-</b>	<b>638,227</b>
Exchange rate differences	- 3,397	- 3,559	- 2,588	-	- 9,544
Additions/disposals due to changes in the scope of consolidation	389	3,775	1,964	-	6,128
Depreciation and impairments	19,121	15,246	13,056	-	47,423
Disposals	18,973	14,167	12,309	-	45,449
Transfers	-	- 414	414	-	-
Reclassification to non-current assets held for sale	- 6,772	- 30,602	- 8,282	-	- 45,656
<b>As of Dec. 31, 2007</b>	<b>280,978</b>	<b>149,775</b>	<b>160,376</b>	<b>-</b>	<b>591,129</b>
<b>Book value as of Dec. 31, 2007</b>	<b>351,196</b>	<b>66,966</b>	<b>49,198</b>	<b>14,778</b>	<b>482,138</b>
Book value as of Dec. 31, 2006	367,996	69,839	44,988	17,725	500,548

Declaration of the Management Board	57
Auditor's report	58
Consolidated statement of income	59
Consolidated balance sheet	60
Consolidated statement of cash flows	63
Summary of changes in equity	64
Notes	66
Other offices held	114
Consolidated Group companies	118
Individual financial statements	122
Profit distribution proposal	125
Glossary	126

Property plant and equipment with a carrying amount of €175,281 thousand (2006: €183,961 thousand) have been used as collateral to secure borrowings of the group.

In 2007 Klöckner & Co recognized impairment losses of €287 thousand (2006: €336 thousand), which related to impairment of buildings in Germany and Spain.

#### Assets held under finance leases

As of the reporting date, the carrying amount of capitalized assets held under finance leases amounts to €14,221 thousand (2006: €14,804 thousand) for land and buildings, €4,149 thousand (2006: €9,344 thousand) for technical equipment and machinery, €306 thousand (2006: €341 thousand) for vehicles and €2,735 thousand (2006: €0 thousand) for assets under construction.

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

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

- In the light of the intended disposal of the Canadian subsidiary Namasco Ltd., Toronto, Canada, within the next twelve months, the carrying amounts of two processing plants under finance leases of €3,150 thousand were reclassified to assets held for sale.

#### c) Financial assets

Financial assets break down as follows:

(€ thousand)	Dec. 31, 2007	Dec. 31, 2006
Shares in affiliated companies	324	1,118
Other share investments	262	1,297
Non-current securities	1,591	1,441
Non-current loans	484	722
<b>Financial assets</b>	<b>2,661</b>	<b>4,578</b>

Impairment losses in the reporting year amounted to €15 thousand (2006: €9 thousand).

#### (16) Inventories

(€ thousand)	Dec. 31, 2007	Dec. 31, 2006
Raw materials and supplies	25,681	57,369
Work in progress	7,501	4,007
Finished goods and merchandise	913,249	776,338
Advance payments	9,213	3,315
<b>Inventories</b>	<b>955,644</b>	<b>841,029</b>

Of the inventories recognized as of December 31, 2007, €241,418 thousand (2006: €154,162 thousand) are stated at net realizable values. Write-downs to the net realizable value amount to €46,822 thousand (2006: €37,101 thousand).

In addition to the standard reservations of title, inventories with a carrying amount of €41,308 thousand (2006: €84,444 thousand) serve as collateral for financial liabilities of €10,312 thousand as of December 31, 2007.

### (17) Trade receivables

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

The Klöckner & Co Group regularly sells trade receivables under two ABS programs. The trade receivables are sold by the participating Group companies to two special-purpose entities (SPE). As the programs do not qualify for derecognition under the requirements of IAS 39, the receivables are reported on the Group's consolidated balance sheet. The refinancing of the purchased receivables by the SPE is therefore reported in

the consolidated financial statements as loans to the conduits.

The carrying amount of the receivables of the Group companies participating in the ABS program as of December 31, 2007 amounts to €722 million (2006: €642 million).

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

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

Trade receivables (in € thousand)	Not overdue as of the balance sheet date	Of which: overdue by days as of the balance sheet date					Write- downs	Carrying amount
		1–30 days	31–60 days	61–90 days	91–120 days	>120 days		
<b>Dec. 31, 2007</b>								
958,555	779,691	143,036	21,877	5,567	4,284	4,100	– 28,591	– 929,964
<b>Dec. 31, 2006</b>								
965,450	770,853	150,989	24,809	6,312	3,289	9,198	– 32,552	932,898

Moreover, trade receivables in the amount of €10,323 thousand (2006: €4,310 thousand) were used as collateral for bank loans.

Declaration of the Management Board	57
Auditor's report	58
Consolidated statement of income	59
Consolidated balance sheet	60
Consolidated statement of cash flows	63
Summary of changes in equity	64
Notes	66
Other offices held	114
Consolidated Group companies	118
Individual financial statements	122
Profit distribution proposal	125
Glossary	126

**(18) Other assets**

(in € thousand)	Dec. 31, 2007		Dec. 31, 2006	
	Current	Non-current	Current	Non-current
Receivables from affiliated companies	10	–	8	–
Receivables from companies in which the Company holds a participating interest	–	–	244	–
Receivable from the disposal of Valencia premises	31,659	–	–	–
Receivables from insurance companies	2,757	–	2,041	–
Commission claims	21,174	–	12,602	–
Reinsurance claims from pension funds	–	12,183	4,348	6,688
Employer contribution reserves, Switzerland	–	5,349	–	4,775
Claims for other taxes	2,732	–	2,867	–
Prepaid expenses	4,531	140	2,474	87
Other assets	23,504	2,064	24,800	1,906
<b>Other assets</b>	<b>86,367</b>	<b>19,736</b>	<b>49,384</b>	<b>13,456</b>

Reinsurance claims from pension funds contain €6,139 thousand (2006: €5,976 thousand) reimbursement rights (see Note 23 (Provisions for pensions and similar obligations)).

Other current assets include deposits of €2,836 thousand (2006: €5,770 thousand) and creditors with debit balances of €2,719 thousand (2006: €4,400 thousand).

**(19) Cash and cash equivalents**

Cash and cash equivalents predominantly include bank balances. There are no restrictions on disposal for bank balances in place.

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

On December 3, 2007, an investment bank was mandated to begin the process of disposing of the Canadian subsidiary Namasco Ltd., Toronto. The company predominantly operates in the processing sector for the North American automotive industry. Due to the structural changes in this industry and market performance in recent years, management expects that the business will only develop positively if such activities are also actively developed in the US. However, activities of this nature with major customers in the automotive industry do not form part of the core business of the Klöckner & Co Group. Management expects to complete the disposal during the first half of 2008.

The assets and liabilities of the disposal group are as follows:

(€ thousand)	Dec. 31, 2007
Non-current assets	27,655
Current assets	70,621
Non-current liabilities	6,921
Current liabilities	25,373

In addition to this disposal group, certain non-current assets no longer required for operations have been classified as non-current assets held for sale. This includes €170 thousand of land and buildings in the Europe segment and €150 thousand of machinery in the North America segment. The amount for 2006 of €10,387 thousand exclusively relates to land and buildings in Europe.

### (21) Equity and minority interests

#### a) Subscribed capital

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

option to exclude shareholders' subscription rights in certain cases.

By resolution of the Annual General Meeting on June 20, 2007 the share capital of the company has been conditionally increased up to €11,625,000 by the issue of up to 4,650,000 new registered non-par value shares with entitlement to profits from the beginning of the business year in which they are issued.

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

In accordance with section 21 para. 1 and section 22 para. 1 Wertpapierhandelsgesetz (WpHG – Securities Trading Act) the Company was notified as follows:

Notifying institutions	Domicile	Voting interests in %	Date on which threshold was met
<b>Increase over threshold</b>			
Franklin Mutual Series Fund	Short Hills, USA	5.00	February 19, 2007
TIAA Board of Overseers	New York, USA	5.18	February 20, 2007
Franklin Mutual Advisors, LLC	Short Hills, USA	10.81	March 1, 2007
Fidelity International Limited	Hamilton, Bahamas	5.03	October 25, 2007
Alken Asset Management, LLP	London, Great Britain	5.07	November 13, 2007
TPG-Axon Partners, L.P.	New York, USA	5.38	December 19, 2007
<b>Decrease under threshold</b>			
Multi Metal Investment S.à r.l	Luxemburg	0.00	April 20, 2007
TIAA Board of Overseers	New York, USA	4.75	August 1, 2007
Alken Asset Management, LLP	London, Great Britain	4.95	January 29, 2008

#### b) Capital reserves

The additional paid-in capital amounts to €260,496 thousand (2006: €197,699 thousand). This includes a premium of €87,750 thousand from the issue of new shares on June 28, 2006, and the equity component of €62,797 thousand attributable to the conversion feature of the convertible bond issued on July 18, 2007.

Declaration of the Management Board	57
Auditor's report	58
Consolidated statement of income	59
Consolidated balance sheet	60
Consolidated statement of cash flows	63
Summary of changes in equity	64
Notes	66
Other offices held	114
Consolidated Group companies	118
Individual financial statements	122
Profit distribution proposal	125
Glossary	126

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 activities and foreign currency translation adjustments.

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

d) Minority interests

Minority interests represent third party interest in consolidated subsidiaries.

The development of the individual components of consolidated equity and minority interests for the period from January 1, 2006 to December 31, 2006, and from January 1, 2007 to December 31, 2007, is shown in the statement of changes in equity.

## (22) Share-based payments

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

The virtual stock options of each tranche become can be exercised after a 30 day trading period after the Annual General Meeting following the allotment year of the respective tranche. Subsequently, the options of the relevant tranches may be exercised in full or in part at any time. The amount to settle the obligation corre-

sponds to the difference between the average trading price of the last 30 trading days (XETRA trading, Deutsche Börse AG, Frankfurt a. M.) prior to exercising the option and the respective strike price of the tranche.

In addition 112,000 virtual stock options were granted to certain members of the senior management throughout the Group. The exercise conditions are largely identical to the Management Board program.

During financial year 2007 a total of 296,000 virtual stock options were exercised. As of the reporting date, provisions of €2,827 thousand (2006: €3,275 thousand) were established. Total expense recognized during the financial year amount to € 11,716 thousand (2006: €3,275 thousand)

## (23) Provisions for pensions and similar obligations

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

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

For defined contribution plans, the Company pays contributes funds to private or public pension institutions on the basis of statutory or contractual requirements. With these payments the Company is discharged from all further obligations. Defined contribution expenses in 2007 amounted to €19,408 thousand (2006: €17,752 thousand). Included therein are employers' contributions to the statutory pension schemes in the amount of €15,697 thousand (2006: €13,955 thousand).

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

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

	Germany in %	Austria in %	Switzer- land in %	Nether- lands in %	UK in %*)	France in %	US in %
Discount rate	5.50	5.50	3.50	5.50	5.80	5.50	6.50
Salary trend	2.10	2.10	2.00	2.00	4.90	2.00	3.50
Pension trend	1.90	1.90	0.50	2.00	3.20	1.25	0.00
Expected return on plan assets	4.50	–	4.50	5.70	6.70–7.50	3.50	8.00

\*) Depending on the respective pension scheme

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

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

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

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

(€ thousand)	Dec. 31, 2007	Dec. 31, 2006
Defined benefit obligation of unfunded plans	147,204	159,496
Defined benefit obligation of fully or partly funded defined benefit plans	411,325	447,991
Fair value of plan assets	– 464,622	– 434,395
Unrecognized actuarial gains and losses	18,383	– 2,623
Unrecognized past service cost	2,924	2,803
Amounts not recognized due to asset ceiling (IAS 19.58 (b))	67,199	14,311
Fair value of the reimbursement rights	– 6,139	– 5,976
<b>Net amount recognized</b>	<b>176,274</b>	<b>181,607</b>
Thereof:		
– Other assets in connection with pension obligations*)	12,183	11,035
– Provisions for pensions and similar obligations	188,457	192,642

\*) Also includes reimbursement rights recognized as assets

Declaration of the Management Board	57
Auditor's report	58
Consolidated statement of income	59
Consolidated balance sheet	60
Consolidated statement of cash flows	63
Summary of changes in equity	64
Notes	66
Other offices held	114
Consolidated Group companies	118
Individual financial statements	122
Profit distribution proposal	125
Glossary	126



The reconciliation of the defined benefit obligation is as follows:

(€ thousand)	2007	2006
<b>Defined benefit obligation as of January 1</b>	<b>607,487</b>	<b>587,595</b>
Service cost	12,790	18,131
Interest cost	22,599	22,267
Employee contributions	11,686	6,534
Actuarial gains and losses	-50,232	-508
Exchange rate differences	-17,262	-10,266
Benefits paid	-28,654	-26,013
Past service cost	-422	12,512
Changes in the scope of consolidation	537	103
Curtailments	-	-1,140
Settlements	-	-1,728
<b>Defined benefit obligation as of December 31</b>	<b>558,529</b>	<b>607,487</b>

The fair values of the plan assets developed as follows:

(€ thousand)	2007	2006
<b>Fair value of plan assets as of January 1</b>	<b>434,395</b>	<b>408,482</b>
Expected return	22,250	21,663
Employee contributions	11,686	10,535
Employer's contributions	12,756	12,670
Actuarial gains and losses	20,091	13,035
Exchange rate differences	-16,155	-10,534
Benefits paid	-20,707	-17,727
Changes in the scope of consolidation	306	64
Settlements	-	-3,793
<b>Fair value of plan assets as of December 31</b>	<b>464,622</b>	<b>434,395</b>

The current allocation of plan assets is as follows:

(€ thousand)	Dec. 31, 2007	Dec. 31, 2006
Shares	163,962	168,958
Bonds	171,035	179,135
Other assets	39,410	-4,626
Real estate	90,215	90,928
	<b>464,622</b>	<b>434,395</b>

In 2007, financial instruments issued by the plan sponsor amounted to €898 thousand (2006: €851 thousand), own-used real estate and other assets used by the Company amounted to €10,614 thousand (2006: €8,968 thousand).

The changes in reimbursement rights are shown in the following table:

(€ thousand)	2007	2006
<b>Reimbursement rights as of January 1</b>	<b>5,976</b>	<b>1,924</b>
Expected return	225	41
Employer's contributions	246	96
Actuarial gains and losses	-194	-
Benefits paid	-18	-383
Settlements	-96	4,298
<b>Reimbursement rights as of December 31</b>	<b>6,139</b>	<b>5,976</b>

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

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

(€ thousand)	2007	2006
Service cost	- 12,790	- 18,131
Interest cost for funded plans	- 15,741	- 15,004
Expected return on plan assets	22,250	21,663
Expected return on reimbursement rights	225	41
Actuarial gains and losses	48,858	- 1,025
Past service cost	301	- 12,216
Effect of plan curtailments and settlements	-	1,952
Effects of limitation in line with asset ceiling under IAS 19.58 (b)	- 53,599	9,573
Employee contributions	-	4,006
Interest cost for unfunded plans	- 6,858	- 7,263
<b>Total expenses for defined benefit pension obligations</b>	<b>- 17,354</b>	<b>- 16,404</b>

The actual return on plan assets amounted to €42,341 thousand in 2007 (2006: €31,392 thousand). The actual return on reimbursement rights totaled €31 thousand (2006: €41 thousand).

The funded status of defined benefit plans is as follows:

(€ thousand)	2007	2006	2005
Defined benefit obligation	558,529	607,487	587,595
Fair value of plan assets	464,622	434,395	408,482
Funded status	93,907	173,092	179,113

In 2007 and 2006, experience adjustments to the present value of pension rights and the fair values of plan assets were as follows:

(€ thousand)	2007	2006
Defined benefit obligation	2,428	- 1,670
Fair value of plan assets	20,022	15,391

The employers' contributions to the plan assets for the 2008 financial year are expected to be €12,800 thousand.

The unrecognized amounts have arisen from actuarial gains or losses as a result of staff changes and differences between assumed and actual developments, and from plan curtailments and settlements. With the exception of the expenses from curtailments and settlements, which are expensed as incurred, the corridor approach is applied under which actuarial gains or losses are amortized over the remaining service period of the active employees to the extent that these gains or losses exceed the higher amount of 10% of the defined benefit obligation or the fair value of plan assets.

Pension-related obligations include obligations for compensation payments.

Declaration of the Management Board	57
Auditor's report	58
Consolidated statement of income	59
Consolidated balance sheet	60
Consolidated statement of cash flows	63
Summary of changes in equity	64
Notes	66
Other offices held	114
Consolidated Group companies	118
Individual financial statements	122
Profit distribution proposal	125
Glossary	126

**(24) Other provisions**

(€ thousand)	Balance as of January 1, 2007	Addition	Accretion	Utiliza- tion	Reversals	Other changes*)	Balance as of Dec. 31, 2007
Other taxes	1,717	1,772	–	1,255	158	–670	1,406
<b>Personnel related obligations</b>							
– early retirement	9,646	4,426	111	5,295	408	–9	8,471
– anniversary payments	13,788	–	252	563	29	9	13,457
– other	141	216	–	141	–	–1	215
Onerous contracts	2,174	734	–	701	800	1,508	2,915
Restructuring	13,258	2,218	–	4,207	5,795	–357	5,117
Litigation and other risks	29,325	2,911	–	1,816	8,124	105	22,401
Miscellaneous provisions	64,040	10,057	4	6,883	3,601	–505	63,112
	<b>134,089</b>	<b>22,334</b>	<b>367</b>	<b>20,861</b>	<b>18,915</b>	<b>80</b>	<b>117,094</b>
<b>Other accrued liabilities</b>							
Personnel related obligations	54,759	27,293	–	25,334	1,431	–1,306	53,981
Outstanding invoices	49,963	17,668	–	33,855	2,228	–256	31,292
Miscellaneous accrued liabilities	2,717	1,065	–	2,401	273	31	1,139
	<b>107,439</b>	<b>46,026</b>	<b>–</b>	<b>61,590</b>	<b>3,932</b>	<b>–1,531</b>	<b>86,412</b>
<b>Other provisions</b>	<b>241,528</b>	<b>68,360</b>	<b>367</b>	<b>82,451</b>	<b>22,847</b>	<b>–1,451</b>	<b>203,506</b>

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

Reconciliation to balance sheet amounts:

(€ thousand)	Dec. 31, 2007		Dec. 31, 2006	
	Non-current	Current	Non-current	Current
Other taxes	–	1,406	–	1,717
Personnel related obligations				
– early retirement	7,181	1,290	8,295	1,351
– anniversary payments	13,200	257	13,518	270
– other	–	215	–	141
Onerous contracts	1,330	1,585	–	2,174
Restructuring	303	4,814	303	12,955
Litigation and other risks	10,744	11,657	11,502	17,823
Miscellaneous provisions	26,393	36,719	21,638	42,402
	<b>59,151</b>	<b>57,943</b>	<b>55,256</b>	<b>78,833</b>
<b>Other accrued liabilities</b>				
Personnel related obligations	–	53,981	–	54,759
Outstanding invoices	–	31,292	–	49,963
Miscellaneous accrued liabilities	–	1,139	–	2,717
	–	<b>86,412</b>	–	<b>107,439</b>
<b>Other provisions</b>	<b>59,151</b>	<b>144,355</b>	<b>55,256</b>	<b>186,272</b>

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

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

Provisions for litigation and other risks include pending litigation with a former shareholder (Balli).

Miscellaneous provisions include with €20,000 thousand (2006: €15,000 thousand) a potential liability case. Also included therein is an amount of €2,985 thousand (2006: €3,152 thousand) for compensation payments to former employees of a subsidiary acquired in 2000 due to the insolvency of the relevant insurance company. Furthermore, provisions for environmental remediation including decontamination and other risks are included under this caption.

Accrued liabilities for employee related obligations include bonus payments of €36,949 thousand (2006: €38,009 thousand) and accrued vacation and accrued overtime of €14,987 thousand (2006: €15,243 thousand).

Declaration of the Management Board	57
Auditor's report	58
Consolidated statement of income	59
Consolidated balance sheet	60
Consolidated statement of cash flows	63
Summary of changes in equity	64
Notes	66
Other offices held	114
Consolidated Group companies	118
Individual financial statements	122
Profit distribution proposal	125
Glossary	126

**(25) Financial liabilities**

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

(€ thousand)	Dec. 31, 2007				Dec. 31, 2006			
	up to 1 year	1–5 years	over 5 years	Total	up to 1 year	1–5 years	over 5 years	Total
Bonds	2,097	264,170	–	266,267	2,232	–	164,046	166,278
Liabilities due to banks*)	66,267	244,134	–	310,401	58,175	88,602	–	146,777
Liabilities under the ABS programs	1,204	293,609	–	294,813	–	150,175	–	150,175
Finance lease liabilities*)	3,076	9,675	1,488	14,239	4,300	9,651	3,687	17,638
	<b>72,644</b>	<b>811,588</b>	<b>1,488</b>	<b>885,720</b>	<b>64,707</b>	<b>248,428</b>	<b>167,733</b>	<b>480,868</b>

\*) Excluding liabilities of Namasco Ltd. which are included in liabilities of disposal group.

Financial liabilities of €36,000 thousand (2006: €80,406 thousand) are secured by mortgages. Furthermore, inventories listed in Note 16 (Inventories) serve as collateral.

Transaction costs that are directly attributable to the issue of financial liabilities in the amount of €10,415 thousand (2006: €14,052 thousand) were offset against the respective obligation.

**Bonds**

In view of further optimization of Klöckner & Co Group's financing structure, the outstanding high yield bond of €170 million plus outstanding interest of €1.5 million was repaid on June 15, 2007. This resulted in early repayment charges and redemption costs of €38.5 million which are included in the financial result.

On July 18, 2007, Klöckner & Co AG issued via its wholly owned subsidiary Klöckner & Co Finance International S.A. convertible bonds with an aggregated nominal value of €325 million. Payments under the bond are

guaranteed by Klöckner & Co AG. The bonds which are convertible into shares of Klöckner & Co AG have a maturity of five years and a coupon of 1.50%. The conversion price has been set at €80.75. The proceeds from the sale of the convertible bonds will among other things, be used for further acquisitions of businesses.

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

Transaction costs of €3.6 million incurred of which €2.9 million are attributed to the liability component and will be amortized over the duration of the bonds. The remaining amount of €0.7 million has been offset against earnings reserves, net of deferred tax.

### Liabilities due to banks

On May 2, 2007, Klöckner & Co signed an agreement for a multi-currency revolving credit facility with a total volume of €600 million of which €201 million was utilized as of December 31, 2007. The credit facility has a term of 3 years, with two options allowing an extension up to 5 years. Transaction costs incurred of €2.5 million are amortized over 3 years.

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

### Liabilities under ABS programs

Since July 2005, the Klöckner & Co Group has conducted a European ABS program with a term of five years. By way of an agreement dated April 16, 2007, the Dutch ODS B.V. was added to the European ABS program. The European program volume was increased from €380 million to €420 million.

In addition, the existing ABS program in the US was terminated in June 2007 and replaced by a new program with a volume of USD 125 million (€84.9 million).

As of the balance sheet date, utilization of the programs including accumulated interest amounted to €298.7 million; this amount breaks down as follows:

(€ million)	Dec. 31, 2007	Dec. 31, 2006
European program		
– Utilization	223,6	110,0
– Maximum volume	420,0	380,0
American program		
– Utilization	75,1	45,6
– Maximum volume	84,9	56,9

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

### Liabilities under finance leases

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

(€ thousand)	Dec. 31, 2007	Dec. 31, 2006
Due within one year	3,265	4,494
Due between one and five years	10,783	10,714
Due after five years	1,768	4,673
<b>Future minimum lease payments</b>	<b>15,816</b>	<b>19,881</b>
Due within one year	189	194
Due between one and five years	1,108	1,063
Due after five years	280	986
<b>Interest included in future minimum lease payments</b>	<b>1,577</b>	<b>2,243</b>
Due within one year	3,076	4,300
Due between one and five years	9,675	9,651
Due after five years	1,488	3,687
<b>Present value of future minimum lease payments</b>	<b>14,239</b>	<b>17,638</b>

### (26) Trade payables

(€ million)	Dec. 31, 2007	Dec. 31, 2006
Advance payments received	392	325
Trade payables	565,223	584,384
Bills payable	44,248	54,735
<b>Trade payables</b>	<b>609,863</b>	<b>639,444</b>

Declaration of the Management Board	57
Auditor's report	58
Consolidated statement of income	59
Consolidated balance sheet	60
Consolidated statement of cash flows	63
Summary of changes in equity	64
Notes	66
Other offices held	114
Consolidated Group companies	118
Individual financial statements	122
Profit distribution proposal	125
Glossary	126

**(27) Other liabilities**

(€ thousand)	Dec. 31, 2007		Dec. 31, 2006	
	Non-current	Current	Non-current	Current
Liabilities due to affiliated companies	–	–	–	2,641
Liabilities due to entities in which participations are held	–	109	–	112
Social security contributions	–	9,880	–	10,666
Customers with credit balances	–	13,063	–	12,977
Liabilities to employees	–	6,294	–	5,413
Value-added tax liabilities	–	32,223	–	26,401
Other tax liabilities	–	8,244	–	9,941
Other liabilities	8,962	21,935	8,746	21,346
<b>Other liabilities</b>	<b>8,962</b>	<b>91,748</b>	<b>8,746</b>	<b>89,497</b>

Other current liabilities primarily comprise payment obligations to former shareholders in the amount of €6,713 thousand (2006: €11,693 thousand).

The other non-current liabilities relate with €5,675 thousand to a contingent consideration in relation to a business combination in 2007.

Other information

(28) Information on capital management

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

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

Gearing is calculated as follows:

(€ thousand)	Dec. 31, 2007	Dec. 31, 2006	Change
Financial liabilities*)	893,071	480,868	412,203
Transaction costs	10,415	14,052	- 3,637
Cash and cash equivalents*)	- 157,077	- 130,156	- 26,921
Net cash indebtedness (before transaction costs)	746,409	364,764	381,645
Equity	844,924	799,449	45,475
Gearing	88%	46%	

\*) Includes amounts for Namasco Ltd. which are included in assets held for sale and liabilities of disposal groups, respectively

The increase in the gearing factor is primarily due to the higher borrowings throughout the Group as a result of implementing its growth strategy.

Furthermore, the growth strategy is also influenced by the Company's mid term goal of achieving an investment grade rating.

Declaration of the Management Board 57

Auditor's report 58

Consolidated statement of income 59

Consolidated balance sheet 60

Consolidated statement of cash flows 63

Summary of changes in equity 64

Notes 66

Other offices held 114

Consolidated Group companies 118

Individual financial statements 122

Profit distribution proposal 125

Glossary 126



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

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

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

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

Financial assets as of December 31, 2006 (€ thousand)	IAS 39 measurement categories					Total carrying amount as of Dec. 31, 2006
	Fair value	At fair value through profit or loss	Available for sale	Loans and receivables	Not covered by the scope of IFRS 7	
<b>Non-current financial assets</b>						
Financial assets	1,996	–	1,274	722	2,582	4,578
Other assets	1,570	–	–	1,570	11,886	13,456
<b>Current financial assets</b>						
Trade receivables	932,898	–	–	932,898	–	932,898
Other assets	41,493	–	–	41,493	7,891	49,384
Securities, cash and cash equivalents	130,156	–	113	130,043	–	130,156
Assets held for sale	–	–	–	–	10,387	10,387
	1,108,113	–	1,387	1,106,726	32,746	1,140,859

Financial liabilities as of December 31, 2006 (€ thousand)	IAS 39 measurement categories				Carrying amount under IAS 17	Not covered by the scope of IFRS 7	Total carrying amount as of Dec. 31, 2006
	Fair value	At fair value through profit or loss	Other liabilities				
<b>Non-current financial liabilities</b>							
Financial liabilities	462,836	–	402,824	13,337	–	–	416,161
Other liabilities	8,746	–	8,746	–	–	–	8,746
<b>Current liabilities</b>							
Financial liabilities	65,151	–	60,407	4,300	–	–	64,707
Trade payables	639,444	–	639,444	–	–	–	639,444
Other liabilities	42,489	721	41,768	–	47,008	–	89,497
Liabilities associated with assets held for sale	–	–	–	–	–	–	–
	1,218,666	721	1,153,189	17,637	47,008	–	1,218,555

Declaration of the Management Board	57
Auditor's report	58
Consolidated statement of income	59
Consolidated balance sheet	60
Consolidated statement of cash flows	63
Summary of changes in equity	64
Notes	66
Other offices held	114
Consolidated Group companies	118
Individual financial statements	122
Profit distribution proposal	125
Glossary	126

### Fair values

The fair values of current financial assets are largely identical to their carrying amounts. The fair values of financial liabilities reflect the current market environment as of December 31, 2007 for the respective financial investments. The fair value is not reduced by transaction costs. For current financial liabilities for which no transaction costs are to be considered, the carrying amount approximates fair value.

### Net income by measurement categories

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

Net income for the measurement category loans and receivables consists of foreign currency exchange gains and losses, impairments, recoveries on impaired receivables and compensation by and fees for credit insurance. In financial year 2007, a net loss of €11,895 thousand (2006: €16,686 thousand) was incurred.

Net income for other liabilities consists of foreign currency exchange gains and losses, early repayment charges and redemption costs and reversed transaction costs of the high yield bond. In financial year 2007, a net loss of €37,914 thousand (2006: €11,092 thousand) was incurred.

As a result of impairments of non-current securities there were impairment losses of €15 thousand (2006: €9 thousand) for financial assets. The impairment loss for trade receivables amounted to €3,118 thousand (2006: €6,038 thousand).

### Credit risks

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

The maximum exposure to credit risk is reflected by the carrying amounts of the financial assets reported in the balance sheet. The Klöckner & Co Group counters the credit risk with its own credit management and with credit insurance. In 2007 approximately 70% of the trade receivables were covered by credit insurance.

### (30) Derivative financial instruments

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

In operating its business Klöckner & Co is exposed to interest and currency risks. Such risks are hedged using derivative financial instruments.

Klöckner & Co only uses standard instruments for which sufficient liquid markets exist. Derivative financial instruments are entered into and managed in compliance with internal directives that govern the scope of action, responsibilities and control systems. According to these directives, the use of derivative financial instruments is a key task of the central finance department of Klöckner & Co AG, which manages and coordinates such use. The transactions are concluded exclusively with counterparts with first class credit ratings. Derivative financial instruments cannot be used for speculative purposes, but exclusively for hedging risks associated with underlying transactions.

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

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

#### Information on interest rate risk

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

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

Under the central financial regime funding requirements in the Euro zone resulting from acquisitions were refinanced by the issuance of a convertible bond and revolving credit facilities. The variable interest on the non-current portion of such obligations was for a period of seven years in part fixed via interest rate swaps. Due to their term and volume these instruments qualify as cash flow hedges. Changes in interest levels will have an impact on the reserve for fair value adjustments of financial instruments included in equity and are therefore separately recognized in the sensitivity analysis.

Under consideration of the convertible bond and the fixed rate bilateral credit arrangements as of December 31, 2007, approximately 50% of the net financial indebtedness before transaction costs was of a fixed rate nature. If hedging instruments are incorporated in the analysis, the amount of a fixed interest debt included in the net cash indebtedness before transaction costs amounts to approximately 70%.

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

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

If US Dollar/Euro interest rate levels as of December 31, 2007, had been higher by 50 basis points the financial result for the following year would have been impacted negatively by €1.7 million, representing approximately 1.8% of the Group's financial result.

At an US Dollar/Euro interest rate increase of 50 basis points the value of derivative financial instruments designated as cash flow hedges would have been positively increased by €4.3 million, which would have been reflected in equity in the reserve for fair value adjustments of financial instruments.

Declaration of the Management Board	57
Auditor's report	58
Consolidated statement of income	59
Consolidated balance sheet	60
Consolidated statement of cash flows	63
Summary of changes in equity	64
Notes	66
Other offices held	114
Consolidated Group companies	118
Individual financial statements	122
Profit distribution proposal	125
Glossary	126

### Information on foreign currency exchange risk

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

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

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

Financing activity foreign exchange risk is the risk that results from foreign currency loans of the holding companies. As part of the central group financing these loans denominated in Pound Sterling and US Dollar were granted to subsidiaries and were fully hedged.

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

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

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

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

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

### Information on liquidity risk

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

In addition to the convertible bond with a nominal amount of €325 million and finance leasing of approximately €16 million the Group – including Namasco Ltd., Toronto, Canada – has lines of credit of approximately €1,480 million, of which as of December 31, 2007, €619 million or 42% were used. This amount includes €362 million collateralized debt, mainly in connection with the ABS program.

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

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

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

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

Declaration of the Management Board	57
Auditor's report	58
Consolidated statement of income	59
Consolidated balance sheet	60
Consolidated statement of cash flows	63
Summary of changes in equity	64
Notes	66
Other offices held	114
Consolidated Group companies	118
Individual financial statements	122
Profit distribution proposal	125
Glossary	126

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

(€ million)	Dec. 31, 2007		Dec. 31, 2006	
	Not designated in hedge accounting	Designated in hedge accounting	Not designated in hedge accounting	Designated in hedge accounting
Nominal values				
Forward exchange transactions	52.2	–	49.4	–
Interest rate swaps	6.8	640.0	20.0	–
Interest rate caps	–	–	102.3	–
Other interest rate hedging instruments	34.0	–	38.0	–
Cross currency swap	–	160.0	–	–
Fair values				
Forward exchange transactions	0.6	–	–0.1	–
Interest rate swaps	–0.1	0.3	–0.3	–
Interest rate caps	–	–	–	–
Other interest rate hedging instruments	–1.1	–	–0.3	–
Cross currency swap	–	–1.2	–	–

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

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

Forward exchange transactions with a nominal amount of €52.2 million (2006: € 49.4 million) have a remaining term of less than one year. To hedge its foreign currency exposure of long-term inter group financing Klöckner & Co Verwaltung GmbH entered into a cross currency swap maturing in 2014. With regard to the financing volume of US Dollar 235 million the principal swap at the beginning and the end of the term as well as semi-annual interest payments the interest rate was fixed at the inception of the swap agreement. Due to its duration and volume the cross currency swap qualifies as cash flow hedge under IAS 39.

The interest rate swaps designated in a hedging relationship relate to three forward interest rate swaps and one interest rate swap with volumes of €160 million each and a weighted fixed swap interest rate of 4.49%. The total term of these transactions covers a seven year period. The interest rate swaps are used to hedge existing and future variable Euro interest rate debt of the holding companies which relates to refinancing of non-current assets. The interest rate swaps not designated in hedge accounting with a nominal amount of €6.8 million (2006: €20 million) are due in July 2008. They are used to hedge Namasco Corporation's variable interest bearing US Dollar debt.

The other interest rate hedging instruments with a nominal amount of €34 million (2006: €38 million) refer to an US dollar interest collar of Klöckner & Co Verwaltung GmbH with a floor of 3.75% and a cap of 5.80%.

### (31) Contingent liabilities

The liabilities on bills amount to €159 thousand (2006: €23 thousand).

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

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

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

(€ thousand)	Dec. 31, 2007	Dec. 31, 2006
Due within one year	35,664	34,947
Due between one and five years	91,419	80,648
Due after five years	65,832	67,115
<b>Future minimum lease payments (nominal amounts)</b>	<b>192,915</b>	<b>182,710</b>

There are also other financial obligations arising from the purchase obligation for investments, which amounted to €12,604 thousand as of December 31, 2007 (2006: €1,100 thousand).

Declaration of the Management Board	57
Auditor's report	58
Consolidated statement of income	59
Consolidated balance sheet	60
Consolidated statement of cash flows	63
Summary of changes in equity	64
Notes	66
Other offices held	114
Consolidated Group companies	118
Individual financial statements	122
Profit distribution proposal	125
Glossary	126



**(32) Related party transactions**

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

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

(€ thousand)	2007	2006
Short-term benefits		
– fixed components	871	855
– variable components	2,089	2,456
Share-based compensation	2,800	3,276

The amount for share-based payments represents the fair value of the virtual stock options at the grant date. During financial year 2007 payouts for share-based compensation amounts to €7,591 thousand (2006: €0 thousand).

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

In the 2007 financial year, remuneration paid to the Supervisory Board of Group amounted to €401 thousand (2006: €306 thousand).

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

**(33) Supplemental cash flow information**

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

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

**Cash flow from operating activities**

Cash flow from operating activities amounted to €108,504 thousand in the financial year 2007 (2006: €131,972 thousand). The income and financial situation, supported by the continued strength of the steel business, is reflected in the operating cash flow of €327,756 thousand before changes in balance sheet items and income tax payments, which fell below the prior year's amount of €354,376 thousand primarily due to lower gross profits. Sales increases, mainly due to volume and price effects and business combinations resulted in higher levels of inventories, trade receivables and payables and, accordingly, net working capital. The increase in working capital was limited by a continuously stringent trade receivable collection and inventory management. Net of foreign currency exchange effects, changes in the scope of consolidation and reclassifications to assets held for sale working capital increased by €105,191 thousand to €1,275,745 thousand.

## Changes

(€ thousand)	2007/2006	2006/2005
Inventories	+ 70,783	+ 159,680
Trade receivables*)	- 29,176	+ 133,607
Trade payables	+ 63,584	- 98,548
Working capital	+ 105,191	+ 194,739

\*) Including sold receivables under the ABS programs

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

### Cash flow from investing activities

Net cash inflow from investments and disinvestments was €378,216 thousand in 2007. Cash received from divestments of €38,314 thousand primarily related to disposal of real estate in the Swiss and German sub-groups and the sale of Metalix B.V. In the Spanish sub-group, disposal proceeds of property, plant and equipment of €31.7 million have not yet been collected due to the purchase price not being due.

Cash outflows for investing activity, excluding acquisition of subsidiaries relate mainly to modernizing and expanding existing facilities (€60,697 thousand). Cash outflows for the acquisition of subsidiaries primarily relate to the acquisitions outlined in Note 5 (Acquisitions and disposals) for which, including the acquisition of further stakes in Debrunner Koenig Holding AG, €366 million were paid, net of cash and cash equivalents acquired of €10.2 million. For further information with regard to assets and liabilities acquired refer to Note 5 (Acquisitions and disposals). The cash and cash equivalents are classified as current.

### Cash flow from financing activities

Allowing for cash proceeds for the option premium received (€62,797 thousand) in connection with issuance of the convertible bond, dividends paid to shareholders of Klöckner & Co AG and minority interest holders of €46,779 thousand, net interest payments of €77,631 thousand and predominately to increased borrowings of €357,159 thousand, total cash inflow from financing activity amounts to €294,847 thousand. Cash flow from financing activity of €47,694 thousand is impacted by acquisitions, foreign currency exchange effects and other non-cash interest effects including amortization of deferred transaction cost and reclassification to liabilities associated with assets held for sale.

The business activities of the Klöckner & Co Group continuously generate short-term cash and cash equivalents. As a general rule they are used within one month to repay working capital credits. This is the origin of the interest received of €4,312 thousand.

### Cash and cash equivalents

Cash and cash equivalents including short-term securities amount to €153,558 thousand as of December 31, 2007. Foreign currency balances are carried at the buying rate at the reporting date. Cash and cash equivalents include bank balances of €47,064 thousand relating to the consolidated special-purpose entities whose business is conducted exclusively for the subsidiaries participating in the ABS programs.

Declaration of the Management Board	57
Auditor's report	58
Consolidated statement of income	59
Consolidated balance sheet	60
Consolidated statement of cash flows	63
Summary of changes in equity	64
Notes	66
Other offices held	114
Consolidated Group companies	118
Individual financial statements	122
Profit distribution proposal	125
Glossary	126

## (34) Segment reporting

(€ thousand)	Europe		North America	
	2007	2006	2007	2006
External sales	5,197,178	4,669,855	1,076,965	862,631
– of which with third parties	5,197,178	4,669,855	1,076,965	862,631
– of which with other segments	–	–	–	–
Investments in intangible assets/property, plant and equipment	50,426	40,785	9,240	4,587
Segment earnings (EBITDA)				
– excluding Group internal transfer of pensions	326,167	365,959	64,500	78,840
– Group internal transfer of pensions	–	27,888	–	–
Earnings before interest and taxes (EBIT) (after pension transfers)	286,272	356,394	48,011	71,271
Amortization on intangible assets and depreciation of property, plant and equipment	39,608	37,767	16,489	7,569
Impairment losses for intangible assets and property, plant and equipment	287	336	–	–
Reversals of impairment losses for property, plant and equipment	–	650	–	–
Other non-cash income/ expenses	3,375	134	–	–
Net income from companies carried at equity	–	424	–	–

(€ thousand)	Europe		North America	
	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
Segment assets	2,225,566	1,954,378	499,319	289,560
Unallocated assets	–	–	–	–
Total assets	–	–	–	–
Segment liabilities	745,131	705,645	111,824	63,818
Unallocated liabilities	–	–	–	–
Total liabilities	–	–	–	–

	Europe		North America	
	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
Employees at year-end	8,799	8,368	1,628	1,204

Headquarters		Consolidation		Total	
2007	2006	2007	2006	2007	2006
26,419	10,361	-26,419	-10,361	6,274,143	5,532,486
-	-	-	-	6,274,143	5,532,486
26,419	10,361	-26,419	-10,361	-	-
710	1,198	-	-	60,376	46,570
-20,003	-50,064	-	-	370,664	394,735
-	-27,888	-	-	-	-
-27,477	-90,418	-	-	306,806	337,247
7,474	12,466	-	-	63,571	57,802
-	-	-	-	287	336
-	-	-	-	-	650
-	-	-	-	3,375	134
-	-	-	-	-	424

Headquarters		Consolidation		Total	
Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
527,365	223,548	-481,637	-85,140	2,770,613	2,382,346
-	-	-	-	195,540	169,362
-	-	-	-	2,966,153	2,551,708
571,069	294,893	-481,637	-85,140	946,387	979,216
-	-	-	-	1,174,842	773,043
-	-	-	-	2,121,229	1,752,259

Headquarters		Total	
Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
154	116	10,581	9,688

Declaration of the Management Board	57
Auditor's report	58
Consolidated statement of income	59
Consolidated balance sheet	60
Consolidated statement of cash flows	63
Summary of changes in equity	64
Notes	66
Other offices held	114
Consolidated Group companies	118
Individual financial statements	122
Profit distribution proposal	125
Glossary	126

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

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

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

Metalix B.V. was the sole remaining entity accounted for at equity which has been sold in 2008. Equity in earnings of this entity in 2006 amounted to €424 thousand included in EBIT, which has therefore also been part of EBITDA.

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

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

In the 2006, the intragroup transfer of pension obligations for inactive employees in the Europe segment generated income and corresponding expenses in the Headquarters segment of €27,888 thousand.

### **(35) Subsequent Events**

Under an agreement signed on January 16, 2008, Klöckner & Co Aktiengesellschaft acquired a further 20.1% of the shares in Debrunner Koenig Holding AG, Switzerland. The purchase price amounts to €115.6 million. With these additional shares, Klöckner & Co now holds 98.1% of all shares in the Swiss subsidiary Debrunner Koenig Holding AG.

On January 23, 2008, Klöckner UK Holdings Ltd., the British country operation signed a contract to acquire Multitube Ltd. which is headquartered in Brierley Hill, West Midlands (UK). Multitube specializes in distributing and processing welded tubes that are used in many industrial sectors, such as the furniture industry. In 2007, the company of 16 employees generated sales of around €5 million.

On January 25, 2008, Ulrich Becker was appointed as a member of the Board of Management. Mr. Becker was previously a member of the management team of Benteler Automobiltechnik GmbH. Ulrich Becker will assume responsibility for the Europe segment and take on functional responsibility for Purchasing.

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

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

(€ thousand)	2007	2006
Audit of financial statements	1,274	977
Other assurance or valuation services	355	1,135
Tax advisory services	432	177
Other services	804	77
	<b>2,865</b>	<b>2,366</b>

The fees for auditing primarily include the audit of the consolidated financial statements in line with IFRS and audits of the stand alone financial statements of the companies included in the consolidated financial statements. Other assurance services include review reports on interim financial statements. In addition, audit fees of €486 thousand were incurred in financial year 2006 in connection with the IPO which were directly debited against retained earnings.

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

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

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

In 2007 the following domestic subsidiaries made use in part of the exemption clause included in section 264 para. 3 of the German Commercial Code (HGB):

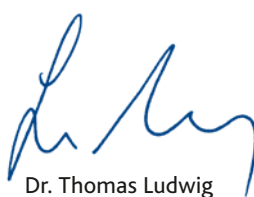
- Multi Metal Beteiligungs GmbH, Duisburg
- Klöckner & Co International GmbH, Duisburg
- Klöckner & Co Verwaltung GmbH, Duisburg
- Klöckner & Co USA Beteiligungs GmbH, Duisburg
- Klöckner Stahl- und Metallhandel GmbH, Duisburg
- Klöckner Global Sourcing GmbH, Duisburg

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

On December 12, 2007, the Management Board and Supervisory Board issued the declaration of compliance in accordance with section 161 AktG (German Stock Corporation Act) and made it permanently available to the shareholders on the Klöckner & Co AG website.

Duisburg, February 29, 2008

Klöckner & Co AG  
The Management Board



Dr. Thomas Ludwig



Gisbert Rühl

Declaration of the Management Board	57
Auditor's report	58
Consolidated statement of income	59
Consolidated balance sheet	60
Consolidated statement of cash flows	63
Summary of changes in equity	64
Notes	66
Other offices held	114
Consolidated Group companies	118
Individual financial statements	122
Profit distribution proposal	125
Glossary	126

## KLÖCKNER & CO AKTIENGESELLSCHAFT

### Additional information concerning the consolidated financial statements

#### Additional Mandates of the Members of Management Board of Klöckner & Co AG Section 285(1) no. 10 HGB

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

###### **Group Mandates**

- Klöckner Stahl- und Metallhandel GmbH, Duisburg, Chairman of the Supervisory Board
- Comercial de Laminados, Madrid/Spain, Chairman
- Debrunner Koenig Holding AG, St. Gallen/Switzerland, Chairman
- Klöckner Distribution Industrielle S.A., Aubervilliers/France, Chairman
- Klöckner Investment S.C.A., Luxemburg/Luxemburg
- Klöckner Metalsnab AD, Sofia/Bulgaria, Chairman, since December 17, 2007
- Klöckner UK Holdings Ltd, Leeds/UK, Chairman
- Klöckner Namasco Holding Corporation, Atlanta/USA, Chairman
- Klöckner Polska Sp.z.o.o., in liquidation, Katowice/Poland, Chairman until October 16, 2007
- Namasco Limited, Toronto/Canada, Chairman
- ODS B.V., Rotterdam/Netherlands, Chairman

###### **Other Mandates**

- Trimet Aluminium AG, Essen, Chairman of the Supervisory Board
- Bandstahl Schulte & Co. GmbH, Hagen, Chairman of the Advisory Board since November 2007
- 3A Aluminium AG, Düsseldorf, Member of the Supervisory Board
- Rölfs W. P. Partner AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, Chairman of the Supervisory Board
- (7S) Personal GmbH, Hamburg, Chairman of the Advisory Board

##### **Gisbert Rühl,** **Member of the Management Board, CFO**

###### **Group Mandates**

- Klöckner Stahl- und Metallhandel GmbH, Duisburg, Member of the Supervisory Board
- Comercial de Laminados, Madrid/Spain, Deputy Chairman
- Klöckner & Co Financial Services B.V., Rotterdam/Netherlands, Chairman
- Klöckner Distribution Industrielle S.A., Aubervilliers/France, Deputy Chairman
- Klöckner Ibérica S.L., Madrid/Spain, Deputy Chairman
- Klöckner Investment S.C.A., Luxemburg/Luxemburg
- Klöckner Metalsnab AD, Sofia/Bulgaria, since December 17, 2007
- Klöckner Namasco Holding Corporation, Atlanta/USA
- Namasco Limited, Toronto/Canada
- ODS B.V., Rotterdam/Netherlands

###### **Other Mandates**

- Deutsche Bank Aktiengesellschaft, Essen branch, Member of the Regional Advisory Board
- DAL Deutsche Afrika Linien GmbH & Co KG, Hamburg, Member of the Advisory Board
- Walter Services Holding GmbH, Ettlingen, Chairman of the Shareholders' Committee and, since November 29, 2007, Chairman of the Supervisory Board

**Additional Mandates of the Members  
of the Supervisory Board of Klöckner & Co AG  
Section 285(1) no. 10 HGB**

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

- Bertelsmann AG, Chairman of the Supervisory Board, until December 31, 2007<sup>1)</sup>
- mobilcom AG, Chairman of the Supervisory Board, until February 21, 2007<sup>1)</sup>
- telunico holding AG, Chairman of the Supervisory Board, until February 21, 2007<sup>1)</sup>
- HSBC Trinkaus & Burkhardt AG, Member of the Advisory Board<sup>2)</sup>
- Ernst & Young AG, Member of the Advisory Board<sup>2)</sup>
- Debrunner Koenig Holding AG, Member of the Board of Directors<sup>2)</sup>
- Gerling-Konzern Versicherungs-Beteiligungs-AG, Member of the Board of Directors, January 1, 2004 to September 30, 2007<sup>2)</sup>
- HDI-Gerling-Industrie Versicherung AG, Member of the Advisory Board, from October 1, 2007<sup>2)</sup>
- Board of Trustees of the Bertelsmann Foundation, Chairman from August 1, 2007<sup>2)</sup>

**Dr. Michael Rogowski, Deputy Chairman**

- Voith AG, Chairman of the Supervisory Board and of the Shareholders' Committee<sup>1)</sup>
- Talanx AG, Member of the Supervisory Board<sup>1)</sup>
- IKB Deutsche Industriebank AG, Member of the Supervisory Board<sup>1)</sup>
- Carl Zeiss AG, Member of the Supervisory Board<sup>1)</sup>
- Freudenberg & Co., Deputy Chairman of the Shareholders' Committee<sup>2)</sup>
- Deutsche Bank AG, Member of the Central Advisory Board<sup>2)</sup>
- EADS N.V., Member of the Supervisory Board until September 30, 2007<sup>2)</sup>

**Michael Dees (until November 15, 2007)**

- Bell Nursery Holdings LLC, Member of the Board<sup>2)</sup>

**Alan E. Goldberg (until June 20, 2007)**

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

<sup>1)</sup> Membership in legally required Supervisory Boards as defined by section 125 AktG (German Stock Corporation Act)

<sup>2)</sup> Membership of similar corporate Supervisory Bodies in Germany and abroad as defined by section 125 AktG (German Stock Corporation Act)

Declaration of the Management Board	57
Auditor's report	58
Consolidated statement of income	59
Consolidated balance sheet	60
Consolidated statement of cash flows	63
Summary of changes in equity	64
Notes	66
Other offices held	114
Consolidated Group companies	118
Individual financial statements	122
Profit distribution proposal	125
Glossary	126



**Robert J. Koehler** (since December 11, 2007)

- Benteler AG,  
Chairman of the Supervisory Board<sup>1)</sup>
- Pfeleiderer AG,  
Member of the Supervisory Board<sup>1)</sup>
- AXA Versicherung AG, Member of the  
Supervisory Board, until June 30, 2007<sup>1)</sup>
- Heidelberger Druckmaschinen AG,  
Member of the Supervisory Board<sup>1)</sup>
- Demag Cranes AG,  
Member of the Supervisory Board<sup>1)</sup>
- Lanxess AG, Member of the Supervisory Board<sup>1)</sup>

**Frank H. Lakerveld**

- Sonepar Nederland B.V.,  
Deputy Chairman of the Supervisory Board<sup>2)</sup>
- Sonepar Holding S.A.,  
Chairman of the Supervisory Board<sup>2)</sup>
- Sonepar Canada Inc., Chairman of the Board<sup>2)</sup>
- Osso Electric Suppliers, Inc.,  
Member of the Board, from March 6, 2007<sup>2)</sup>
- Otra N.V., Member of the Supervisory Board<sup>2)</sup>
- Tatje GmbH & Co KG,  
Member of the Advisory Board<sup>2)</sup>
- Sonepar Nordic A/S,  
Member of the Supervisory Board<sup>2)</sup>
- Sonepar Ibérica S.A.,  
Member of the Supervisory Board<sup>2)</sup>
- Sonepar US Holdings, Inc.,  
Member of the Board, from February 26, 2003<sup>2)</sup>
- Sonepar E.C.O.,  
Member of the Supervisory Board<sup>2)</sup>
- Sonepar France S.A., Member of the  
Supervisory Board, from June 2, 2004<sup>2)</sup>
- Sonepar France, Comptoir d'Electricité Franco-  
Belge, Member of the Supervisory Board,  
from March 9, 2007<sup>2)</sup>

- Sonepar Italia SpA,  
Member of the Supervisory Board<sup>2)</sup>
- Sonepar Mexico S.A. de C.V.,  
Member of the Supervisory Board<sup>2)</sup>
- Sonepar Belgium CECEO S.A.,  
Member of the Supervisory Board<sup>2)</sup>

**Robert D. Lindsay** (until June 20 2007)

- Pike Electric Corporation,  
Member of the Board<sup>2)</sup>
- FAPS Holdings, Inc., Member of the Board<sup>2)</sup>
- Keystone Foods Holdings, LLC,  
Member of the Board<sup>2)</sup>
- Maine Beverage Company, LLC,  
Member of the Board<sup>2)</sup>
- PetroLogistics, LLC, Member of the Board<sup>2)</sup>
- EnergySolutions, LLC, Member of the Board<sup>2)</sup>
- Alliant Insurance Services, Inc.,  
Member of the Board<sup>2)</sup>
- Cap Rock Holding Corporation,  
Member of the Board<sup>2)</sup>
- Darlene Investments LLC,  
Member of the Board<sup>2)</sup>
- Identity Group, L.L.C., Member of the Board<sup>2)</sup>
- Bessemer Holdings Asia, L.L.C.,  
Member of the Board<sup>2)</sup>
- The Bessemer Group, Inc.,  
Member of the Board<sup>2)</sup>
- Bessemer Trust Company, NA,  
Member of the Board<sup>2)</sup>
- Bessemer Trust Company of Florida,  
Member of the Board<sup>2)</sup>
- FSB Global Holdings, Inc.,  
Member of the Board<sup>2)</sup>
- Intermax Holdings, Inc., Member of the Board<sup>2)</sup>
- Brock Holdings, Inc., Member of the Board<sup>2)</sup>
- Bell Nursery Holdings LLC,  
Member of the Board<sup>2)</sup>

<sup>1)</sup> Membership in legally required Supervisory Boards as defined by section 125 AktG (German Stock Corporation Act)

<sup>2)</sup> Membership of similar corporate Supervisory Bodies in Germany and abroad as defined by section 125 AktG (German Stock Corporation Act)

**Dr. Jochen Melchior** (since June 20, 2007)

- AXA Service AG,  
Member of the Supervisory Board<sup>1)</sup>
- Nationalbank AG,  
Member of the Supervisory Board<sup>1)</sup>
- Klöckner-Werke AG, Member of the Supervisory Board, until July 31, 2007<sup>1)</sup>
- KHS AG, Member of the Supervisory Board, until June 30, 2007<sup>1)</sup>
- Logika AG, Chairman of the Supervisory Board, until July 31, 2007<sup>1)</sup>
- Tecon Technologies AG, Chairman of the Supervisory Board, from August 1, 2007<sup>1)</sup>
- Mattson Technology Inc, Chairman<sup>2)</sup>
- Ernst & Young AG,  
Member of the Advisory Board<sup>2)</sup>
- Universitätsklinikum Essen AöR,  
Member of the Supervisory Board<sup>2)</sup>

**Dr. Hans-Georg Vater** (since June 20, 2007)

- SAB Spar- und Anlagenberatung AG,  
Member of the Supervisory Board<sup>1)</sup>  
until August 21, 2007
- ENRO Geothermie AG,  
Deputy Chairman of the Supervisory Board<sup>1)</sup>
- MEDION AG,  
Deputy Chairman of the Supervisory Board<sup>1)</sup>
- Athens International Airport S.A.,  
Member of the Board of Directors<sup>2)</sup>
- HAPIMAG AG,  
Member of the Board of Directors<sup>2)</sup>
- DEMATIC GmbH & Co. KG,  
Member of the Advisory Board<sup>2)</sup>,  
since August 1, 2007
- OWA Odenwald Faserplattenwerk GmbH,  
Member of the Advisory Board<sup>2)</sup>
- Illbruck GmbH,  
Member of the Supervisory Board,  
until April 16, 2007<sup>2)</sup>

<sup>1)</sup> Membership in legally required Supervisory Boards as defined by section 125 AktG (German Stock Corporation Act)

<sup>2)</sup> Membership of similar corporate Supervisory Bodies in Germany and abroad as defined by section 125 AktG (German Stock Corporation Act)

Declaration of the Management Board	57
Auditor's report	58
Consolidated statement of income	59
Consolidated balance sheet	60
Consolidated statement of cash flows	63
Summary of changes in equity	64
Notes	66
Other offices held	114
Consolidated Group companies	118
Individual financial statements	122
Profit distribution proposal	125
Glossary	126

## Consolidated Group companies

Curr. no.	Company	Participation percentage	Held by curr. no.
1	Klöckner & Co Aktiengesellschaft, Duisburg/Germany		
<b>Material consolidated Group companies</b>			
2	Klöckner & Co Finance International S.A., Luxemburg	100.00	1
3	Multi Metal Beteiligungs GmbH, Duisburg/Germany	100.00	1 <sup>1)</sup>
4	Klöckner & Co International GmbH, Duisburg/Germany	100.00	3 <sup>1)</sup>
5	Klöckner & Co Verwaltung GmbH, Duisburg/Germany	100.00	4 <sup>1)</sup>
6	Klöckner & Co Beteiligungs GmbH, Duisburg/Germany	100.00	5
7	Debrunner Koenig Holding AG, St. Gallen/Switzerland	78.06	6
8	Metall Service Menziken AG, Menziken/Switzerland	100.00	7
9	Davum Construction S.A., Crissier/Switzerland	100.00	7
10	Debrunner Acifer AG Landquart, Landquart/Switzerland	100.00	7
11	Debrunner Acifer AG Näfels, Näfels/Switzerland	100.00	7
12	Debrunner Acifer AG Ostermundigen, Ostermundigen/Switzerland	100.00	7
13	Debrunner Acifer AG Zürich, Regensdorf/Switzerland	100.00	7
14	Debrunner Acifer AG Visp, Visp/Switzerland	100.00	7
15	Debrunner Acifer AG Wettingen, Wettingen/Switzerland	100.00	7
16	Debrunner Acifer AG Zentralschweiz, Sursee/Switzerland	100.00	7
17	Debrunner Acifer AG, St. Gallen/Switzerland	100.00	7
18	Debrunner Acifer AG, Zofingen/Switzerland	100.00	7
19	Debrunner Acifer SA Fribourg, Givisiez/Switzerland	100.00	7
20	Debrunner Acifer SA Giubiasco, Giubiasco/Switzerland	100.00	7
21	Debrunner Acifer SA Romandie, Crissier/Switzerland	100.00	7
22	Debrunner Koenig Informatik AG, Dietikon/Switzerland	100.00	7
23	Debrunner Koenig Management AG, St. Gallen/Switzerland	100.00	7
24	Feracier AG, Regensdorf/Switzerland	100.00	7
25	Klöckner Stahl AG, St. Gallen/Switzerland	100.00	7
26	Koenig Feinstahl AG, Dietikon/Switzerland	100.00	7
27	Koenig Verbindungstechnik AG, Dietikon/Switzerland	100.00	7
28	Koenig Austria GmbH, Asten/Austria	100.00	27
29	Koenig Fastening Technology US, LLC, Wilmington/Delaware/USA	100.00	27
30	Farmington Engineering Inc., Madison/Connecticut/USA	100.00	29
31	Koenig Verbindungstechnik GmbH, Illerrieden/Germany	100.00	27
32	KVT-CZ s.r.o., Brno/Czech Republic	100.00	27
33	KVT- Polska Sp.z o.o., Gdansk/Poland	100.00	27

<sup>1)</sup> Profit and loss transfer agreement

Curr. no.	Company	Participation percentage	Held by curr. no.	
34	Lehner et Tonossi SA, Siders/Switzerland	100.00	7	Declaration of the Management Board 57
35	Prostahl AG, Raron/Switzerland	60.00 40.00	34 36	Auditor's report 58
36	Prostahl Service AG, Brig-Glis/Switzerland	100.00	34	Consolidated statement of income 59
37	Molok (Valais) SA, Siders/Switzerland	100.00	34	
38	Klockner Limited, Douglas/Isle of Man, Great Britain	99.95 0.05	6 64	Consolidated balance sheet 60
39	Kloeckner & Co USA Beteiligungs GmbH, Duisburg/Germany	100.00	5 <sup>1)</sup>	Consolidated statement of cash flows 63
40	Klößner & Co USA Holding GmbH, Duisburg/Germany	100.00	5	
41	Klößner USA Holding Inc., Wilmington/Delaware/USA	100.00	40	Summary of changes in equity 64
42	Klößner Namasco Holding Corporation, Wilmington/Delaware/USA	100.00	41	Notes 66
43	Namasco Corporation, Wilmington/Delaware/USA	100.00	42	Other offices held 114
44	Namasco Holding Corporation, Wilmington/Delaware/USA	100.00	43	
45	Namasco Metals L.P., Dallas/Texas/USA	99.00 1.00	44 43	Consolidated Group companies 118
46	Klößner Namasco Receivables Corporation, Roswell/USA	100.00	45	Individual financial statements 122
47	Namasco Receivables Corporation, City of Dover/Delaware/USA	100.00	45	
48	NC Receivables Corporation, Wilmington/Delaware/USA	100.00	45	Profit distribution proposal 125
49	Primary Steel LLC, Middletown/Connecticut/USA	100.00	43	Glossary 126
50	Primary Steel Tulare Division LLC, Wilmington/Delaware/USA	100.00	49	
51	Primary Tulare Property LLC, Wilmington/Delaware/USA	100.00	49	
52	Klößner Distribution Industrielle S.A., Aubervilliers/France	90.00	5	
53	Buysmetal N.V., Harelbeke/Belgium	99.99 0.01	52 54	
54	KDI SAS, Aubervilliers/France	100.00	52	
55	Adrien Targe S.A., La Grand Croix/France	100.00	54	
56	Davum Ocean Indien SAS, Le Port/La Réunion/France	100.00	54	
57	KDI Export SAS, Cergy-Pontoise/France	100.00	54	
58	KDI Immobilier SAS, Aubervilliers/France	100.00	54	
59	Prafer SNC, Woippy/France	100.00	54	
60	Tournier Holding SAS, Lagny sur Marne/France	100.00	54	
61	Tournier SAS, Croissy Beaubourg/France	100.00	60	
62	SNPI SAS Croissy Beaubourg/France	100.00	60	
63	Reynolds European S.A.S., Rueil Malmaison/France	100.00	52	
64	Klößner Global Sourcing GmbH, Duisburg/Germany	100.00	5 <sup>1)</sup>	
65	Klößner Information Services GmbH, Duisburg/Germany	51.00	5	
66	Klößner Netherlands Holding B.V., Barendrecht/Netherlands	100.00	5	
67	Klößner & Co Financial Services B.V., Rotterdam/Netherlands	100.00	66	

<sup>1)</sup> Profit and loss transfer agreement

Curr. no.	Company	Participation percentage	Held by curr. no.
68	NAMASCO LIMITED, Toronto-Ontario/Canada	100.00	66
69	ODS B.V., Rotterdam/Netherlands	100.00	66
70	B.V. Industriële Vertegenwoordiging Metaalbedrijven "Invem", Rotterdam/Netherlands	100.00	69
71	B.V. Staalveredelingsbedrijf S.V.B., Helmond/Netherlands	100.00	69
72	B.V. Tistim, Rotterdam/Netherlands	100.00	69
73	Hollandia Non-Ferro B.V., Hendrik Ido Ambacht/Netherlands	100.00	69
74	Metaalmaatschappij Van Houten B.V., Rotterdam/Netherlands	100.00	69
75	ODS Metals N.V., Antwerp/Belgium	100.00	69
76	O-D-S N.V., Antwerp/Belgium	100.00	69
77	O-D-S Transport B.V., Barendrecht/Netherlands	100.00	69
78	Sidalmetaal Non-Ferro Verkoop B.V., Capelle aan den IJssel/Netherlands	100.00	69
79	Struycken & Co. B.V., Rotterdam/Netherlands	100.00	69
80	Teuling Staal B.V., Barendrecht/Netherlands	100.00	69
81	Verenigde Staalhandel Struycken-Mullerstaal B.V., Rotterdam/Netherlands	100.00	69
82	Vuij B.V., Utrecht/Netherlands	100.00	69
83	W.B. Diepeveen & Co B.V., Rotterdam/Netherlands	100.00	69
84	Klöckner Participaciones SA, Madrid/Spain	100.00	5
85	Comercial de Laminados S.A., Barcelona/Spain	100.00	84
86	Aesga Aceros Especiales S.A., Madrid/Spain	100.00	85
87	Cortichapa S.A., Valencia/Spain	85.00 15.00	85 90
88	Hierros del Cantabrico S.A., Asturias/Spain	100.00	85
89	Hierros del Ebro S.A., Zaragoza/Spain	100.00	85
90	Hierros del Turia S.A., Valencia/Spain	80.00	85
91	Hierros Guadalquivir S.A., Sevilla/Spain	100.00	85
92	Klöckner Aluminio Ibérica S.A., Madrid/Spain	100.00	85
93	Materiales Siderurgicos S.A., Madrid/Spain	100.00	85
94	Perfiles Aragon S.A., Zaragoza/Spain	100.00	85
95	Suministros Loinaz S.A., Guipuzcoa/Spain	100.00	85
96	Klöckner Stahl- und Metallhandel GmbH, Duisburg/Germany	100.00	5 <sup>1)</sup>
97	Edelstahlservice Mágocs Nemesacélfeldolgozó Kft, Mágocs/Hungary	100.00	96
98	Dobbertin Drahthandel GmbH, Hamburg/Germany	100.00	96
99	Klöckner Romania S.R.L., Bucharest/Romania	95.00 5.00	96 98

<sup>1)</sup> Profit and loss transfer agreement

Curr. no.	Company	Participation percentage	Held by curr. no.		
100	Klöckner Stahl und Metall Ges.m.b.H, Vienna/Austria	100.00	96	Declaration of the Management Board	57
101	Metall- und Service-Center GmbH Nfg. KG, Vienna/Austria	51.00	100	Auditor's report	58
102	Klöckner Stahlhandel CZ, s.r.o., Prague/Czech Republic	100.00	96	Consolidated statement of income	59
103	Klöckner Stal i Metal Polska Sp. z o.o., Poznań/Poland	99.99 0.01	96 98	Consolidated balance sheet	60
104	Klöckner UK France Holding Ltd., London/Great Britain	100.00	5	Consolidated statement of cash flows	63
105	ASD Limited, Leeds/Great Britain	100.00	104	Summary of changes in equity	64
106	Interpipe (UK) Ltd., Dudley/Great Britain	100.00	104	Notes	66
107	Klöckner Metal Services Ltd., Leeds/Great Britain	100.00	104	Other offices held	114
108	Klöckner UK Holdings Ltd., Leeds/Great Britain	100.00	104	Consolidated Group companies	118
109	Richardsons Westgarth Ltd., Leeds/Great Britain	100.00	104	Individual financial statements	122
110	Armstrong Plate Ltd., Leeds/Great Britain	100.00	109	Profit distribution proposal	125
111	Berry Hill Group Ltd., Leeds/Great Britain	100.00	109	Glossary	126
112	James & Tatton Ltd., Leeds/Great Britain	100.00	111		
113	Gardiner, Barugh & Jones Ltd., Leeds/Great Britain	100.00	109		
114	Grange Steels Ltd., Leeds/Great Britain	100.00	109		
115	Hilton Steels Ltd., Leeds/Great Britain	100.00	109		
116	Humber Steel Stockholders Ltd., Leeds/Great Britain	100.00	109		
117	John O. Holt & Sons Ltd., Leeds/Great Britain	100.00	109		
118	Armstrong Steel Ltd., Leeds/Great Britain	100.00	117		
119	JRS Steel Stockholders Ltd., Leeds/Great Britain	100.00	109		
120	Organically Coated Steels Ltd., Leeds/Great Britain	100.00	109		
121	Parkin Steel Stockholders Ltd., Leeds/Great Britain	100.00	109		
122	Peterborough Steels Ltd., Leeds/Great Britain	100.00	109		
123	RW Doncaster Ltd., Leeds/Great Britain	100.00	109		
124	RW Project Metals Ltd., Leeds/Great Britain	100.00	109		
125	Westgarth Aberdeen Ltd., Bathgate/Great Britain	100.00	109		
126	Westok Limited, Horbury/Great Britain	100.00	104		
127	Klöckner Verwaltungsgesellschaft für Beteiligungen GmbH & Co KG, Duisburg/Germany	100.00	5 <sup>1)</sup>		
128	Klöckner S.à r.l., Luxemburg	100.00	4		
129	Klöckner Investment SCA, Luxemburg	96.77 3.23	4 128		
130	Klöckner Finance S.à r.l., Luxemburg	100.00	129		

As of December 31, 2007

<sup>1)</sup> Permanent establishment for tax purposes (via indenture), incorporated in the accounts of Klöckner & Co Verwaltung GmbH, Duisburg/Germany

KLÖCKNER & CO AKTIENGESELLSCHAFT  
Balance sheet as of December 31, 2007

122

Assets

(in €)	Dec. 31, 2007	Dec. 31, 2006
Intangible assets	167,751.00	149,347.00
Property, plant and equipment	316,965.86	197,736.00
Financial assets	258,302,651.75	250,671,651.75
<b>Fixed assets</b>	<b>258,787,368.61</b>	<b>251,018,734.75</b>
Trade receivables	2,895.95	1,139.57
Receivables from affiliated companies	526,493,551.04	138,931,297.77
Other assets	3,894,136.63	3,263,441.99
Cash and cash equivalents	26,434.26	10,020.76
<b>Current assets</b>	<b>530,417,017.88</b>	<b>142,205,900.09</b>
Prepaid expenses	57,702,628.75	109,035.22
<b>Total assets</b>	<b>846,907,015.24</b>	<b>393,333,670.06</b>

## Equity and liabilities

(in €)	Dec. 31, 2007	Dec. 31, 2006
Subscribed capital	116,250,000.00	116,250,000.00
Capital reserves	260,496,163.41	197,699,067.41
Other revenue reserves	26,592,215.44	15,288,038.20
Retained profits	37,200,000.00	37,200,000.00
<b>Equity</b>	<b>440,538,378.85</b>	<b>366,437,105.61</b>
Provision for pensions and similar obligations	4,961,298.26	4,139,659.35
Tax provisions	1,284,520.32	606,250.00
Other provisions	8,316,356.69	8,993,901.04
Bonds	325,000,000.00	0.00
Liabilities to banks	30.87	76.58
Trade payables	622,726.76	875,445.08
Liabilities to affiliated companies	56,037,173.26	4,959,457.34
Other liabilities	10,146,530.23	7,321,775.06
<b>Total equity and liabilities</b>	<b>846,907,015.24</b>	<b>393,333,670.06</b>

## Consolidated financial statements 123

Declaration of the Management Board	57
Auditor's report	58
Consolidated statement of income	59
Consolidated balance sheet	60
Consolidated statement of cash flows	63
Summary of changes in equity	64
Notes	66
Other offices held	114
Consolidated Group companies	118
Individual financial statements	122
Profit distribution proposal	125
Glossary	126



KLÖCKNER & CO AKTIENGESELLSCHAFT  
 Income statement  
 for the period from January 1 to December 31, 2007

124

(in €)	2007	2006
Other operating expenses	5,560,014.98	1,997,899.78
Personnel expenses	- 18,047,181.96	- 7,098,307.90
Depreciation of intangible fixed assets and property, plant and equipment	- 273,891.98	- 105,044.19
Other operating expenses	- 18,741,507.48	- 12,991,011.06
Income from investments	75,987,570.86	74,183,087.98
Other interest and similar income	14,175,989.05	2,297,360.80
Interest and similar expenses	- 8,669,271.04	- 5,183,008.00
<b>Result from ordinary activities</b>	<b>49,991,722.43</b>	<b>53,100,977.41</b>
Income taxes	- 1,461,482.35	- 606,250.00
Other taxes	- 26,062.84	- 6,689.21
Net income	48,504,177.24	52,488,038.20
Allocation to other earnings reserves	- 11,304,177.24	- 15,288,038.20
<b>Retained profits</b>	<b>37,200,000.00</b>	<b>37,200,000.00</b>

# KLÖCKNER & CO AKTIENGESELLSCHAFT

## Profit distribution proposal

We propose to the Annual General Meeting that the retained profits of Klöckner & Co AG, in the amount of €37,200,000.00 (2006: €37,200,000.00), be distributed entirely. This corresponds to a dividend of €0.80 (2006: €0.80) per share on the dividend-carrying share capital of €116,250,000.00.

Duisburg, February 29, 2008

Klöckner & Co Aktiengesellschaft  
The Management Board

Consolidated financial statements	125
Declaration of the Management Board	57
Auditor's report	58
Consolidated statement of income	59
Consolidated balance sheet	60
Consolidated statement of cash flows	63
Summary of changes in equity	64
Notes	66
Other offices held	114
Consolidated Group companies	118
Individual financial statements	122
Profit distribution proposal	125
Glossary	126

The annual financial statements of Klöckner & Co Aktiengesellschaft received the unqualified auditor's opinion of KPMG Hartkopf + Rentrop Treuhand KG Wirtschaftsprüfungsgesellschaft. Only the balance sheet, income statement and profit distribution proposal forming part of said statements are presented here. The annual financial statements are filed with the electronic Federal Gazette.

## GLOSSARY

### **Asset-Backed-Securitization-Programms**

Group finance programs under which Klöckner trade receivables are converted into cash. Asset backed securities are generally issued by a special purpose entity which are collateralized by an asset portfolio (i.e. Klöckner trade receivables). The sole purpose of the special purpose entities is to purchase receivables of Klöckner Group companies and to refinance such purchases by issuance of securities. As the programs do not meet criteria under the respective accounting standards, the legally transferred receivables are not derecognized from the Group's balance sheet, but the funds received are presented as loans due to the purchasers of the receivables.

### **Binominal Option Pricing Model**

Numerical option pricing method for valuation options. This model uses a "discrete-time" approach of the varying price over time of the underlying financial instrument. Option valuation is then computed over the life of the option, as the price of the underlying instrument evolves.

### **Cap**

With a cap derivative financial instrument floating rate interest payments on bond liabilities can be limited to a defined maximum rate. If the maximum amount is exceeded, compensating payments in the amount of the difference between the maximum interest rate and the actual interest rate are made to the holder of the instrument.

### **Cash Flow Hedge**

A hedge of the exposure to the variability of cash flow that is attributable to a particular risk associated with a recognized asset or liability, e.g. all or some future interest payments on variable rate debt or a highly probable forecast transaction which could affect profit or loss. If the hedge is considered highly effective income effects of such instruments can be directly recorded in equity bypassing the income statement.

### **Conduits**

Conduits are special purpose entities of banks in the ABS program that refinance themselves on the money market based on the purchase of receivables.

### **Cross Currency Swap**

Foreign exchange agreement between two parties to exchange a principal amount and the respective periodic interest payment of one currency for another and, after a specified period of time, to transfer back the original amounts swapped.

### **Derivative Financial Instrument**

Contractual agreement based on an underlying value (e.g. reference interest rate, securities prices, foreign exchange rates) and a nominal amount. Little or no payment is necessary at the time the agreement is concluded.

### **Dilution**

Describes the reduction in amount earned per share in an investment due to an increase in the total number of shares (e.g. due to convertible bonds). As the number of shares outstanding increases the proportional share embodied in each share decreases (i.e. dilutes).

### Discounted Cash Flow Method (DCF)

Valuation technique used to estimate the value of individual assets or group of assets. Under the approach all future cash flows are discounted to their present value as of the valuation date. The interest rate is determined using the Capital Asset Pricing Model (CAPM), a widely known approach in financial asset portfolio theory.

### Downward Participation Swap

Interest rate hedging against variable interest rate risk based on interest collar instruments. The interest rate can fluctuate between defined upper and lower limits.

### EBITDA

Earnings before interest, taxes, depreciation and amortization (EBITDA) is an internal metric that is used to evaluate profitability.

### Equity Method

Method for valuing interest in associated companies whose assets and liabilities are not fully consolidated. The proportional share of the investee's annual net income (net loss) and other changes in equity is reflected in the investee's book value.

### Fair Value

The price at which assets, liabilities and derivative financial instruments are transferred from a willing seller to a willing buyer, each having access to all the relevant facts and acting freely.

### Floor

Financial instrument between two parties under which compensating payments are made to the holder of the instrument if the value of the underlying financial instruments falls under a defined threshold.

### Foreign Currency Swap

Financial instrument which combines a spot foreign exchange transaction, and a forward foreign exchange transaction.

### Goodwill

The portion of the market value of a business entity not directly attributable to its assets and liabilities; it normally arises only in case of an acquisition. It reflects the ability of the entity to make a higher profit than would be derived from selling the tangible assets.

### Interest Collars

Combination of Floor and Cap. Derivative financial instrument which provides compensating payments based on an underlying notional amount to the holder of the instrument when either the market interest rate falls under or exceeds the defined threshold.

### Interest Rate Swap

An interest rate swap is a derivative in which one party exchanges a stream of interest payments (fixed or variable) for another party's stream of cash flows.

Declaration of the Management Board	57
Auditor's report	58
Consolidated statement of income	59
Consolidated balance sheet	60
Consolidated statement of cash flows	63
Summary of changes in equity	64
Notes	66
Other offices held	114
Consolidated Group companies	118
Individual financial statements	122
Profit distribution proposal	125
Glossary	126

### **International Financial Reporting Standards (IFRS)**

Under regulations Nr 1606/2002 passed by the European Parliament and the European Council as of July 19, 2002, capital-market-oriented companies in the EU such Klöckner & Co must apply IFRS for compiling its financial statements. Those standards encompass the statements issued by the International Accounting Standards Board (IASB), the International Accounting Standards (IAS) of the International Accounting Standards Committee (IASC) and the respective interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as well as the interpretations of the former Standing Interpretations Committee (SIC).

### **Leasing**

Method of financing investments whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time-

### **Multi Currency Revolving Credit Facility**

Line of credit which has been issued by a number of participating banks by way of syndication with an initial term of three years allowing Klöckner & Co to draw funds in various amounts, currencies and maturities. This line of credit is primarily used for general purpose financing,

### **Net Cash Indebtedness**

Net balance of cash and cash equivalents and financial liabilities.

### **Option**

The right, not the obligation, to buy or sell an underlying asset (e.g. securities) on a specific day or during a specified period of time at a predetermined price from or to a counterparty or seller.

### **Regular Way Contracts**

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

### **Sale and Lease Back**

Special form of leasing in which usually real estate is sold to a leasing company which then is leased back by the seller lessee.

### **Virtual Stock Program**

Stock based compensation program for Management Board members and certain other executives which is settled in cash. The exercise gain equals the difference between share price over a thirty-day period prior to the exercise and the strike price at the exercise date.

### **Working Capital**

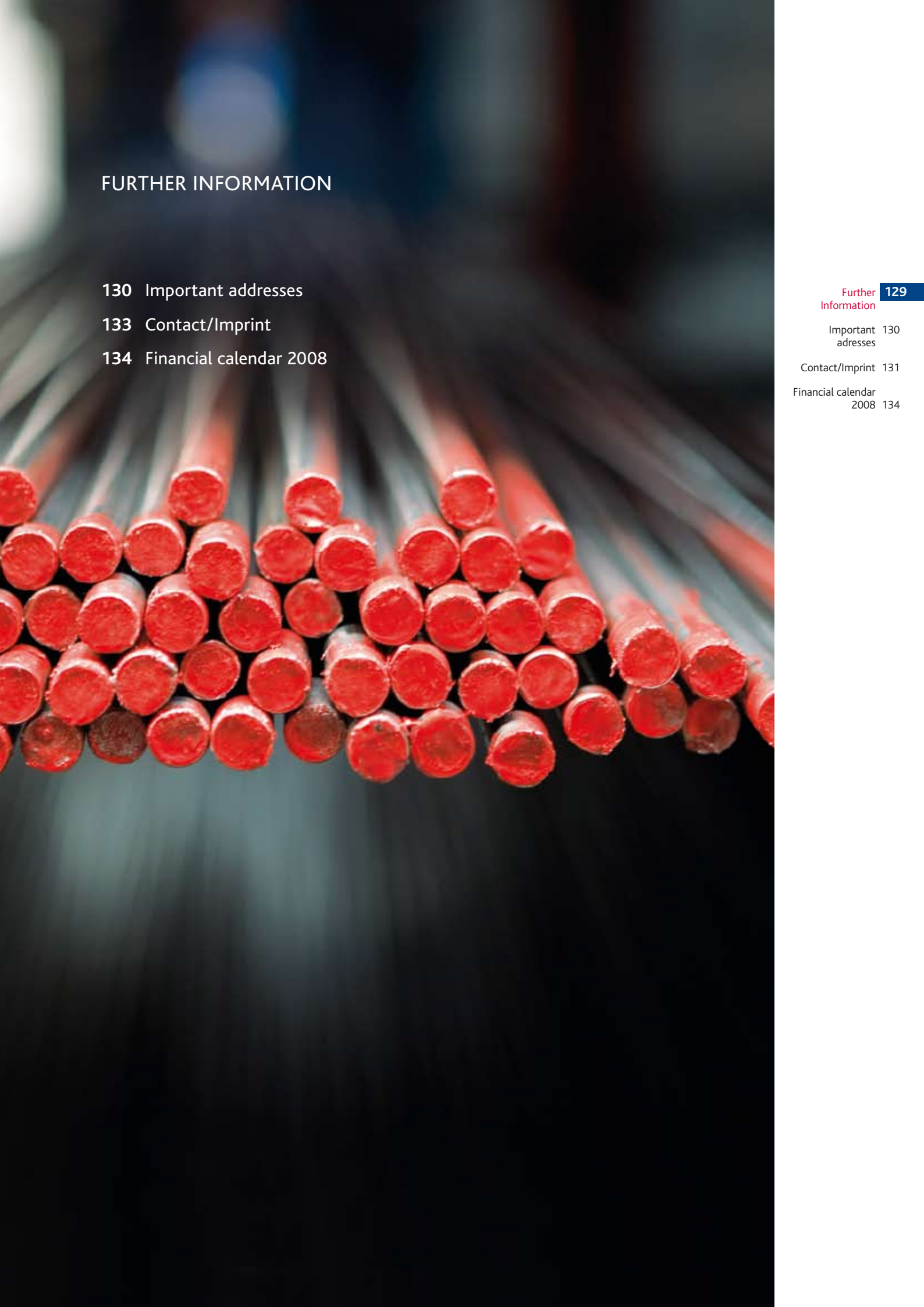
Klöckner & Co defines working capital as the sum of inventories and trade receivables less trade payables.

## FURTHER INFORMATION

- 130 Important addresses
- 133 Contact/Imprint
- 134 Financial calendar 2008

### Further Information 129

Important addresses	130
Contact/Imprint	131
Financial calendar 2008	134



## IMPORTANT ADDRESSES

130

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– Dr. Thomas Ludwig (Chairman)  
– Gisbert Rühl  
– Ulrich Becker (starting April 1, 2008)

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### Multi metal distribution

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Further Information 131

Important addresses 130

Contact/imprint 131

Financial calendar 2008 134



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Further Information 133

Important addresses 130

Contact/imprint 131

Financial calendar 2008 134

## FINANCIAL CALENDAR 2008

134

April 1	Annual Statement 2007
May 15	Q1 Interim Report 2008
June 20	Annual General Meeting 2008 Düsseldorf
June 23	Dividend Payout
August 14	Q2 Interim Report 2008
October 14, 15	Analysts' and Investors' Conference
November 14	Q3 Interim Report 2008

## Disclaimer

This Report (particularly the "Outlook" section) contains forward-looking statements that reflect the current views of the Klöckner & Co AG management with respect to future events. They are generally identified by the words "expect", "anticipate", "assume", "intend", "estimate", "target", "aim", "plan", "will", "endeavor", "outlook" and comparable expressions and include generally any information that relates to expectations or targets for economic conditions, sales or other performance measures. Forward-looking statements are based on current plans, estimates and projections. You should consider them with caution. Such statements are subject to risks and uncertainties, most of which are difficult to predict and are generally beyond Klöckner & Co AG's control. Among the relevant factors are the effects of important strategic and operating initiatives, including the acquisition or disposal of companies. If these or other risks or uncertainties materialize, or if the assumptions underlying any of the statements prove incorrect, Klöckner & Co AG's actual results may be materially different from those stated or implied by such statements.

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Further Information 135

Important addresses 130

Contact/imprint 131

Financial calendar 2008 134

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