Your partner for a sustainable tomorrow

ANNUAL REPORT 2021

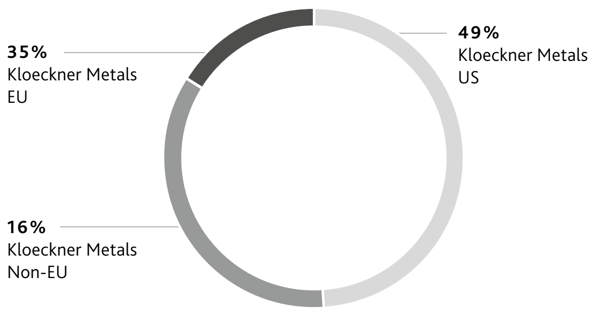
KEY FIGURES

Klöckner & Co SE

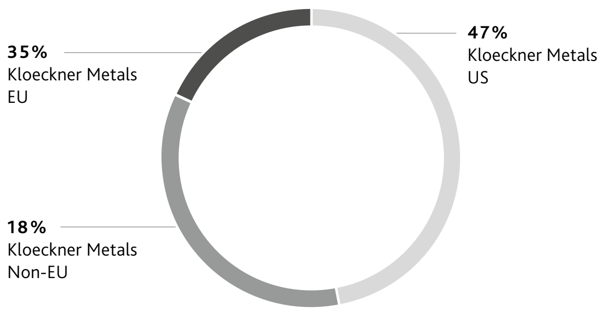
in € million		2021	2020	2019	2018	2017	Change 2021–2020
Shipments	Tto	4,881	4,873	5,648	6,107	6,135	+8
Sales		7,441	5,130	6,315	6,790	6,292	+2,311
EBITDA before material special effects		848	111	124	229	220	+737
EBITDA		879	52	139	227	220	+826
EBIT		754	–93	2	141	130	+848
EBT		748	–124	–39	107	97	+872
Net income		629	–114	–55	69	102	+744
Earnings per share (basic)	€	6.21	–1.16	–0.56	0.68	1.01	+7.37
Earnings per share (diluted)	€	5.58	–1.16	–0.56	0.66	0.96	+6.74
Cash flow from operating activites		–306	161	204	60	79	–467
Cash flow from investing activities		–60	–62	3	–59	2	+ 2
Free cash flow		–366	99	207	1	81	–465
Liquid funds		58	173	183	141	154	–115
Net working capital[1]		1,813	967	1,119	1,277	1,132	+846
Net financial debt		762	351	445	383	330	+ 411
Equity ratio	%	47.1	39.9	40.5	41.9	41.7	+7.2
Balance sheet total		3,878	2,613	2,916	3,061	2,886	+1,265
Employees as of December, 31		7,153	7,274	8,253	8,579	8,682	–121

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

SHIPMENTS



SALES



CONTENT

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

FACTS **2021**

Employees

7,153

Customers

>100,000

Digital Sales
in Q4 2021

46%

Sales

€7,441m

SHIPMENTS

4,881Tto

EBITDA
before material special effects

€848m

Main suppliers

60

Sales
Kloeckner Metals US

€3,511m

Sales
Kloeckner Metals EU

€2,584m

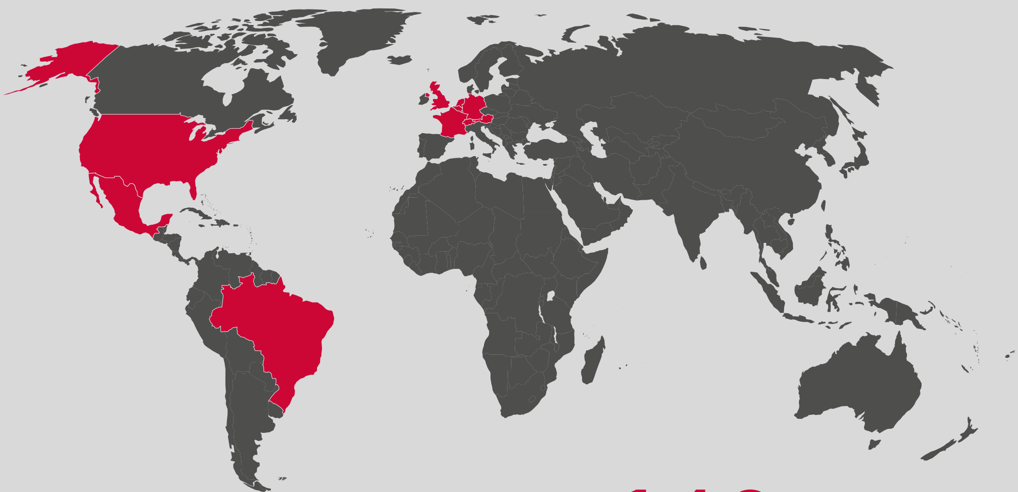
Sales
Kloeckner Metals Non-EU

€1,345m

Products

~200,000

Locations



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LETTER TO THE SHAREHOLDERS

Dear Shareholders,
Ladies and Gentlemen,

In 2021, despite all the uncertainty related to the COVID-19 pandemic, we generated the best operating income since our Company's IPO in 2006. For the full year 2021, we increased sales by a very substantial 45% to €7.4 billion and can report EBITDA before material special effects of €848 million. Net income was likewise extremely strong at €629 million and earnings per share consequently came to €6.21. In light of the record earnings for fiscal year 2021, we will propose an unusually high dividend of €1.00 per share at the Annual General Meeting.

Klöckner & Co 2025: We are on the right path
This success is no coincidence. The fact that we are able to present record earnings despite the continuing COVID-19 crisis shows that we set the right course at an early stage. Thanks to the Surtsey project, we have established a strong operational base to successfully implement initial measures under our "Klöckner & Co 2025: Leveraging Strengths" strategy. With this strategy, we have set ourselves the goal of becoming the leading digital one-stop-shop platform for steel, other materials and processing services in Europe and the Americas. We have come several steps closer to this goal during the past year.

One of these important steps was the appointment of Bernhard Weiß to the Group Management Board. As CEO Europe, he is responsible for activities in the EU and he has also taken over at the helm of Klöckner & Co Deutschland GmbH. This will help to better integrate operations and strengthen cross-border collaboration. Nor have we rested on our laurels in terms of digitalization and automation; rather, we continue to work every day to make "zero touch" a reality. In addition, we have repositioned our digital unit kloeckner.i, established a hub in the USA and further increased the share of sales we generate via digital channels. The AI-driven application Kloeckner Assistant again gained substantial momentum and is now a key tool in the increasingly automated processing of quotes and orders. We reached digital sales of over €1 billion via this solution in 2021. In the tool's next development stage, it should digitalize and automate a full 80% of sales processes and soon be deployed in other parts of Klöckner & Co's value chain.

We are playing a pioneering role in sustainability in the steel industry
Digital pioneers can also do sustainability. Going forward, we will be adding sustainability to our digital focus. Under the slogan "kloeckner takes action 2040," we take responsibility for our environment in order to safeguard the foundations of life for future generations. As with digitalization, we want to be the frontrunner in our industry when it comes to transitioning to a "green" business model long-term. Klöckner & Co was one of only a select few players in the steel sector to sign up as early as 2020 to the Science Based Targets initiative (SBTi) "Business Ambition for 1.5°C" campaign, the world's most ambitious and high-profile framework for emissions reduction. Our first step toward achieving this target will be to significantly reduce directly controllable greenhouse gas emissions at Klöckner & Co by 2030. The SBTi recently approved the medium-term carbon reduction targets adopted by Klöckner & Co as science-based targets. For the long term, we additionally plan to reduce directly controllable carbon emissions to net zero by 2040. In Scopes 1 and 2 alone – meaning emissions associated with the Company itself – we will save some 90 thousand tons of carbon in our own emissions per year.

"With the strategy 'Klöckner & Co 2025: Leveraging Strengths' we have set ourselves the goal of becoming the leading digital one-stop-shop platform for steel, other materials and processing services in Europe and the Americas."

Guido Kerkhoff

CHAIRMAN OF THE MANAGEMENT BOARD (CEO)

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Because we apply a holistic approach across the entire supply chain, we also plan significant reductions in the emissions that we do not cause directly. Above all else, this is about the environmental footprint of the products and services we offer. Emissions that we can only control indirectly – primarily from externally sourced steel products – are to be cut to net zero by 2050. We have already reached our first major milestone on this road: Klöckner & Co has entered into partnership with the Swedish company H2 Green Steel (H2GS) in order to secure access to substantial quantities of virtually carbon-emission-free steel. Under the partnership, up to 250,000 tons of green steel is initially to be supplied from 2025 annually, with an option to increase the volume in future years. The steel is considered to be almost free of carbon emissions because production at H2GS reduces gross carbon emissions by more than 95% relative to conventional production. This cooperation has enabled us to significantly expand our portfolio of sustainable products and services while also helping our customers to build an emission-free value chain. In addition to the extensive reduction measures, we have been compensating the currently unavoidable Scope 1 and 2 emissions by supporting high-quality, certified projects since the beginning of 2022. As a result, Klöckner & Co is already carbon-neutral today.

Recognizing which products are green remains one of the major challenges on the road to decarbonization. So transparency is a key factor. In order to give our customers a reliable, transparent yet simple basis on which to assess a product's carbon profile, Klöckner & Co has developed a meaningful segmentation for green steel. This assessment system is rooted in international, science-based standards and categorizes low-carbon steel according to the TÜV-certified emissions that are generated during manufacturing, through purchased energy and in the supply chain. Klöckner standardizes and completes the data and, by classifying products into six categories, provides an easy way to assess and compare the carbon footprint of green steel reliably.

As a pioneer on the way to a sustainable steel industry, we at Klöckner & Co will assume social responsibility while simultaneously taking advantage of the strategic opportunities presented by decarbonization. With our "Klöckner & Co 2025: Leveraging Strengths" strategy, we have made sustainable solutions an integral part of our business model and are building a sustainable range of products and services that will play an important role in the circular economy of the future – to the benefit of customers, industry and society as a whole. It is our conviction that the sustainable strategic orientation of our business will help us actively drive the green transformation of the economy and society.

Diversity makes us stronger and more innovative
With an eye toward society, there is another important matter that is very close to my heart and which we are focusing on at Klöckner & Co: diversity. Diversity is essential to our society and is an integral element of the working world. We began by focusing on women in management roles and, in this relatively conservative industry, succeeded in raising the share of women executives from 8% in 2011 to 18% in 2021. Our aim is to further increase the share of management positions held by women to 21% by 2024. While our focus on women in management roles was a good start, we want to take a more holistic approach to diversity at Klöckner & Co in the future and continue to expand diversity in all its dimensions. We have already seen that it pays off: our Berlin-based digital hub kloeckner.i, for example, employs diverse teams made up of people from 25 nations who work on innovative solutions for the steel industry. This diverse environment is the prerequisite for developing innovative ideas to tackle the major issues of tomorrow.

We have also demonstrated our social engagement by reaffirming our commitment as main sponsor of the ReDI School of Digital Integration in Duisburg's neighborhood. This sponsorship aims chiefly to effect lasting improvements in the educational opportunities available to socially disadvantaged children in the immediate surroundings of the Company's headquarters in Duisburg. The focus is on promoting integration into the job market, teaching technical and soft skills, and building media skills.

New purpose statement and new claim embody our DNA
Ever since its establishment over 115 years ago, Klöckner & Co has been continually evolving and renewing itself. We have anticipated changes in the environment and adapted to meet our customers' needs. Change has always been a part of our day-to-day business. And constant change requires guidance. So we have to wonder what role Klöckner & Co really plays in a world that is changing faster and faster. These days, the term "purpose" comes up often in this context. "Purpose" means the reason for a company's existence, its raison d'être or the description of what the company does to create value for its stakeholders. This is something we deliberated on as well and, using a 360-degree process that incorporated input from employees from various departments, levels and countries, we defined our purpose. The result:

"We partner with customers and suppliers to deliver innovative metal solutions for a sustainable tomorrow."

This statement sums up who we are and what our role in society is: We are a reliable partner for customers and suppliers and we support them with innovative solutions that go beyond mere order fulfillment. We deliver compelling new ideas, digital tools and automated processes, and work with suppliers who make our product portfolio even more attractive. At the same time, we engage to promote a sustainable future and strive to evolve our Company from a digital pioneer in the steel industry to a pioneer of sustainability. This purpose will serve as our north star in all our strategic decisions. As part of this process, we also reworked our logo and created a claim. In the future, we will appear under our unified logo and our claim across all regions. That will underscore our "one team" approach in all the regions in which we operate and strengthen our brand positioning. The newly introduced claim echoes our purpose and distills our key brand promise to our customers down to its very essence. It is:

"Your partner for a sustainable tomorrow."

These elements express what Klöckner & Co stands for – now and in the future. They show our customers what they can count on, give investors a clear picture of what they can expect from us and provide our employees with guidance for their day-to-day actions. After defining our slogan at the beginning of 2022 and presenting it at the financial statements press conference, we will establish it firmly within the Group over the course of the coming months.

I am fully confident that we are on the right path with this promise. We have set our course and, by concentrating on digitalization and sustainability, have chosen the right focus at the right time, which will increasingly make us a pioneer. For us, steel isn’t part of the problem; it’s part of the solution.

Good business prospects in the USA thanks to stimulus package

The stimulus package approved recently in the USA gives us an additional boost in view of the coming year and beyond. It is the government’s largest infrastructure investment in decades. We expect this measure to kick-start the US economy, particularly the demand for steel. This will unlock excellent opportunities for our US business. Our largest country organization – Kloeckner Metals Corporation, which accounted for 47% of Group sales in the past fiscal year – is ready to deliver the steel this mammoth undertaking will require. That means we have outstanding prospects for growth – not just in the USA, but throughout the entire Company.

A strong team met the challenges of 2021

The world was held in suspense in 2021, and it was also an eventful year for us at Klöckner & Co. And for me personally as well. After a transition phase lasting several months, I took over from Gisbert Rühl as CEO of Klöckner & Co at the 2021 Annual General Meeting. I unveiled the new strategy for Klöckner & Co on the same day. Company strategies don’t implement themselves. They always depend on how strong the commitment is among the people involved. Qualities that are typical of the employees at Klöckner & Co include a willingness to embrace constant change and the ability to keep reinventing themselves even after years at the Company.

After all, driving digitalization and steering our business in an even more sustainable direction are clearly tasks that can only be accomplished through team efforts. The knowledge that I have such a dedicated workforce behind me as we implement our strategy motivates me every day.

I would like to thank all of our employees for their extraordinary commitment. Thanks to everyone who gives their all for Klöckner & Co day in, day out, leaving the beaten path and looking confidently to the future. My gratitude also goes out to the members of our Supervisory Board, who advise and support the Management Board in shaping the Company. And I thank you, our shareholders, for sharing this journey with us.

Sincerely,

Guido Kerkhoff
CHAIRMAN OF THE MANAGEMENT BOARD

MANAGEMENT BOARD

Guido Kerkhoff

CHAIRMAN OF THE MANAGEMENT BOARD (CEO)

Born in 1967, Chairman of the Management Board of Klöckner & Co SE since May 13, 2021 and appointed until August 31, 2023. He is responsible for the coordination of the Management Board and functionally responsible for the divisions Corporate Strategy / M&A, Group HR, Pensions & Insurances, Investor Relations, Internal & External Communications, kloeckner.i (including Group IT), Legal & Governance / Risk / Compliance and Sustainability. In addition, he is responsible for all Swiss and UK Operations.

Dr. Oliver Falk

MEMBER OF THE MANAGEMENT BOARD (CFO)

Born in 1962, Member of the Management Board since August 1, 2019 and appointed until July 31, 2025. As Chief Financial Officer (CFO) he is responsible for Corporate Accounting / Governance & Finance Transformation, Corporate Controlling, Corporate Taxes, Corporate Treasury, Facility Management and Internal Audit.

John Ganem

MEMBER OF THE MANAGEMENT BOARD (CEO AMERICAS)

Born in 1969, Member of the Management Board since August 1, 2019, and appointed until July 31, 2025. As Chief Executive Officer Americas (CEO Americas) he is responsible for all North and South American Operations.

Bernhard Weiß

MEMBER OF THE MANAGEMENT BOARD (CEO EUROPE)

Born in 1965, Member of the Management Board since June 1, 2021, and appointed until May 31, 2024. As Chief Executive Officer Europe (CEO Europe) he is responsible for all EU-European (Austria, Benelux, France, Germany) Operations.

Gisbert Rühl

Chairman of the Management Board until May 12, 2021, born in 1959.

REPORT OF THE SUPERVISORY BOARD

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

The Supervisory Board was involved on a timely basis in all matters of fundamental importance. To this end, the Management Board provided the Supervisory Board with information on planning, the Company's business and financial situation, and all transactions of importance to the Company and the Group, both in and between Supervisory Board meetings. Supervisory Board meetings have regularly included and include reports on the overall economic climate, the industry situation and the performance of the Klöckner & Co Group and its segments, key performance indicators and the performance of the Klöckner & Co share price. Risk exposure, risk management, the internal control system and compliance (including data protection and information security) are also covered in detail. During the September meeting, the Supervisory Board dealt with several issues in particular detail, including the new Group strategy ("Klöckner & Co 2025: Leveraging Strengths") coupled with the restructuring of the operating segments (Kloeckner Metals US, Kloeckner Metals EU and Kloeckner Metals Non-EU). The corporate strategy and its implementation were also addressed at all other ordinary meetings of the Supervisory Board during the reporting year. In all instances, the Supervisory Board was supplied with comprehensive documentation.

Both in plenary sessions and in committee meetings, the members of the Supervisory Board thoroughly reviewed the Management Board's reports and intended actions and made various suggestions. Information was also exchanged on a regular basis between meetings. Written reporting by the Management Board during the reporting year once again centered on the detailed monthly Board Reports. Independently of this, the CEO, in some instances together with the CFO, held personal meetings with the Chairman of the Supervisory Board on a monthly basis to report on current business developments, salient issues and upcoming decisions, to discuss them with him and decide on the further course of action.

Organization of the Supervisory Board's work

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

The members of the Supervisory Board are Prof. Dr. Dieter H. Vogel (Chairman), Dr. Ralph Heck (Deputy Chairman), Prof. Dr. Tobias Kollmann, Prof. Dr. Friedhelm Loh, Uwe Röhrhoff (starting

May 12, 2021; until May 12, 2021 Prof. Dr. Karl-Ulrich Köhler) and Ute Wolf. All Supervisory Board members have experience – which in most cases is longstanding – on management and / or supervisory bodies of various entities and, with their expertise, together optimally cover the full range of responsibilities required by the Company.

The Executive Committee comprises Prof. Dr. Dieter H. Vogel (Chairman), Dr. Ralph Heck and Prof. Dr. Friedhelm Loh. The Executive Committee also carries out the functions of a Personnel Committee and a Nomination Committee. The Audit Committee comprises Ute Wolf (Chairwoman), Prof. Dr. Dieter H. Vogel and Uwe Röhrhoff (starting May 12, 2021; until May 12, 2021 Prof. Dr. Karl-Ulrich Köhler). Ute Wolf is a financial expert within the meaning of Section 100 (5) of the German Stock Corporation Act (AktG) – in the version applicable to Klöckner & Co SE, which excludes the amendments made by the Financial Market Integrity Strengthening Act (FISG) – and also meets the other requirements set out in Recommendation D.4 of the German Corporate Governance Code (also referred to as the “Code” in the following). All members of the Audit Committee also already meet the requirements under FISG. Further information on the Audit Committee and the FISG can be found in the Corporate Governance Statement in this Annual Report. At the plenary meetings, the committee chairpersons reported regularly and in-depth on topics covered in and outcomes of committee meetings. Where permitted by law, certain decision-making powers have been delegated to the committees.

The Management Board is closely involved in the work of the Supervisory Board. All members of the Management Board took part in Supervisory Board meetings. The meetings of the Executive Committee were attended by the CEO. The Audit Committee meetings were attended by the CFO, who was joined by the CEO at the Audit Committee meetings on August 6, 2021, October 22, 2021, and December 13, 2021. The Audit Committee meeting on August 6, 2021, which the auditor was asked to attend in their expert role (to discuss the half-year financial report), was preceded by a related resolution of the Audit Committee, in accordance with the FISG applicable in this respect from July 1, 2021, stating that the presence of the aforementioned Management Board members was deemed necessary. In the course of its meetings, the Supervisory Board also regularly consulted without the Management Board.

It is the individual responsibility of the members of the Supervisory Board to keep themselves informed about current issues and matters relating to their professional practice, and to further their training and professional development. They are supported in this by the Company, which in particular reimburses reasonable expenses for external professional development activities. Moreover, an onboarding program is conducted for newly elected Supervisory Board members. As part of the onboarding program, newly elected members receive a comprehensive information package and the legally required guidance documents. They also have the opportunity to meet the Management Board and, where appropriate, individual heads of corporate departments.

Meeting attendance
The Supervisory Board held a total of four plenary meetings in fiscal year 2021. In addition, one resolution was adopted by written procedure (regarding the update of the Declaration of Conformity with the Code pursuant to Section 161 of the German Stock Corporation Act (AktG)). The Executive Committee met three times in the reporting year and the Audit Committee five times.

The five meetings of the Audit Committee took place via video conference: These were the regularly scheduled meetings to discuss the half-year financial report and quarterly statements before publication, in addition to the meetings in February and December, which were held remotely because of the COVID-19 pandemic. Likewise due to the COVID-19 pandemic, the plenary meetings in February, May and December as well as the Executive Committee meetings in February and December were held via video conference.

Except for the plenary meeting on February 25, 2021 which one member was unable to attend, all Supervisory Board and committee members attended all

	Supervisiory Board			Executive Committee			Audit Committee		
	Atten-dance	Meet-ings	Atten-dance in %	Atten-dance	Meet-ings	Atten-dance in %	Atten-dance	Meet-ings	Atten-dance in %
Prof. Dr. Dieter H. Vogel	4	4	100%	3	3	100%	5	5	100%
Dr. Ralph Heck	4	4	100%	3	3	100%			
Prof. Dr. Karl-Ulrich Köhler until May 12, 2021	2	2	100%				2	2	100%
Prof. Dr. Tobias Kollmann	4	4	100%						
Prof. Dr. Friedhelm Loh	4	4	100%	3	3	100%			
Uwe Röhrhoff since May 12, 2021	3	3	100%				3	3	100%
Ute Wolf	3	4	75%				5	5	100%
Total			**96%**			**100%**			**100%**

meetings in fiscal year 2021 (see Recommendation D.8 of the Code). The attendance rate for all Supervisory Board meetings, including committee meetings, was consequently anexcellent 98.0%.

A detailed member-by-member overview of meeting attendance during the reporting year can be found in tabular form above and on the Company’s website (https://www.kloeckner.com/en/group/supervisory-board.html).

Supervisory Board meeting agenda items and resolutions

During the fiscal year under review, the Supervisory Board regularly addressed the business situation, strategy implementation and strategy development, governance, risk and compliance issues as well as matters pertaining to the Management Board and Supervisory Board. Multiple meetings also covered reporting on ongoing projects including Group financing. Corporate governance issues (including the Declaration of Conformity and the impact of legislative changes) were on the agenda to be discussed at length during the December meeting.

Following fiscal year 2020, which was heavily impacted by the global COVID-19 pandemic, the business performance of the Group as a whole in the reporting year was significantly influenced by an economic recovery (supported in part by numerous government stimulus programs) and the ensuing shortage of materials and disruptions in supply chains. These events led to significant price increases in the market, which progressed into the third quarter. In combination with a very good net working capital management and the cost optimization project Surtsey, this price trend was the greatest contributor to the Group’s best earnings in 2021 since the IPO in 2006. The reversal of the price trend in the fourth quarter had only minimal impact on the reporting year, but will become more significant in 2022. In terms of customer demand, bottlenecks in the supply of semiconductor products for the automotive industry were among the main factors adversely impacting automobile production in the reporting year; this consequently also affected the related materials demand for products offered by the Group. The spread of viral variants has sporadically inhibited demand as well.

In addition to updates on market developments and business conditions, the main topic of the Supervisory Board meetings was above all the further development of the strategy and the ongoing digital transformation. The new strategy “Klöckner & Co 2025: Leveraging Strengths” was discussed at length. It will take Klöckner & Co to the next level on the way toward a successful future. In terms of digitalization, the Kloeckner Assistant for automating sales and the XOM eProcurement tool for supporting procurement were rolled out or further expanded at all country organizations in the reporting year. As a result, the proportion of sales generated via digital channels rose in the reporting year to around 46% of total sales (Q4 2021). Overall, the digital transformation – with a focus on the interests of the Group – will continue to be rigorously pursued in the new fiscal year.

The Supervisory Board closely watched and analyzed share price performance throughout the reporting year and discussed it with the Management Board at meetings. International capital markets continued to be affected in the reporting year by the COVID-19 pandemic and its economic impacts. The economic recovery and firm price increases in the first half year gave rise to earnings growth, which led to markedly positive movement in the share price. Later in the year, developments were characterized by a high degree of volatility against the backdrop of the ongoing pandemic and uncertainties in the Group's relevant markets. The share price gained ground again towards the end of the year, largely due to the strong growth in operating income. It was thus considerably higher than at the beginning of the reporting year and outperformed both the DAX and SDAX indices.

The Supervisory Board closely monitored the financing side as well. The Supervisory Board continues to view the Group's finances as well diversified, solid and balanced. With regard to the maturity profile, the syndicated loan was initially extended in April, ahead of term, with the majority of the banks involved to beyond 2023. In December, an extension until 2025 was agreed in addition to various adjustments as part of an amend and extend process. The bilateral committed credit lines in Switzerland were also successfully extended – with minor technical adjustments – until 2025. The ABS programs in Europe and the USA (where it is a combined ABS and ABL facility) were last revamped in 2020 with matched maturities and were downscaled, especially in terms of their size, to align with the lower funding requirements as a result of the Surtsey project.

Significant topics dealt with at the Supervisory Board meetings included the following:

At its meeting on February 25, 2021, the Supervisory Board approved, among other items, the Company's annual and consolidated financial statements for 2020, the Group non-financial report and the dependency report for fiscal year 2020. Furthermore, the Supervisory Board adopted the motions for the Company's 2021 Annual General Meeting, including the proposal for election of the auditor. The proposals to the Annual General Meeting for the elections to the Supervisory Board had been discussed previously as a separate agenda item. In addition, Management Board topics (2020 bonus, amendments to Guido Kerkhoff's employment contract for the period following his assumption of the position of CEO, conclusion of a termination agreement with Gisbert Rühl) were discussed and resolutions adopted in this regard, and the current market and business developments were addressed. Another topic discussed was corporate strategy, particularly with regard to the new or further developed strategy for the period up to 2025.

The Supervisory Board meeting on May 12, 2021 was largely devoted to preparing for the Company's Annual General Meeting to follow on the same day as a virtual Annual General Meeting without the presence of shareholders due to the COVID-19 pandemic. In addition, current market and business developments were also discussed, as was an update on the new Group strategy "Klöckner & Co 2025: Leveraging Strengths." The meeting also dealt with Management Board topics (appointment of Bernhard Weiß, schedule of responsibilities). Furthermore, the Supervisory Board gave its consent to various transactions requiring approval (IT outsourcing, the extension of the bilateral committed credit lines in Switzerland with minor adjustment of the terms, early repayment of an intercompany loan). Finally, the Management Board provided an overview of potential acquisition opportunities.

The Supervisory Board meeting on September 16, 2021 focused on business developments and corporate strategy. Additional topics included Management Board matters (contract extensions for Dr. Oliver Falk and John Ganem), the annual self-assessment of the Supervisory Board's working methods, the commissioning of an external preliminary audit of the Group non-financial report, and options for dealing with the Group's pension liabilities.

At its meeting on December 13, 2021, the Supervisory Board primarily addressed corporate planning and the budget for fiscal year 2022 (including the three subsequent years), in addition to business developments and the implementation of the corporate strategy. The meeting also focused on corporate governance and Supervisory Board issues (Declaration of Conformity, effects of legislative changes (FüPoG II, FISG), amendments to the rules of procedure for the Supervisory Board and Audit Committee, determination of the appropriate number of independent Supervisory Board members) and Management Board issues (schedule of responsibilities, determination of bonus targets for the 2022 fiscal year, target compensation for the 2022 fiscal year, dealing with the remuneration system). With regard to compensation, the Supervisory Board also decided to have the Remuneration Report for the 2021 fiscal year audited in terms of content as well. Moreover, the annual report on GRC (governance, risk and compliance) topics was discussed. The Supervisory Board was also presented with various transactions requiring its approval, such as the sale of a property in Switzerland, investment in a service center in the USA, partial funding of the Group's pension liabilities and Group financing, with the latter focusing on the amendment and extension of the syndicated loan. These items were discussed and – where already required – received the approval of the Supervisory Board. Finally, the Management Board gave an update on possible M&A activities.

A resolution on updating the Declaration of Conformity was adopted by written procedure on March 15, 2021.

Reports from the committees
Executive Committee:
The Executive Committee met a total of three times in 2021. In all cases, the standard agenda item was the agenda for the Supervisory Board meeting that follows the Executive Committee meeting.

The Executive Committee meeting on February 25, 2021 dealt with Management Board matters (proposal for variable compensation for fiscal year 2020, amendment of Guido Kerkhoff's employment contract for the period following his assumption of the position of CEO, conclusion of a termination agreement with Gisbert Rühl) and nominations for the upcoming Supervisory Board elections at the Annual General Meeting on May 12, 2021.

At its meeting on September 16, 2021, the Executive Committee dealt extensively with the corporate strategy, in addition to other matters. Additional issues included the self-assessment of the Supervisory Board's work and Management Board matters (contract extensions for Dr. Oliver Falk and John Ganem).

The meeting on December 13, 2021 addressed matters which included corporate governance and Supervisory Board matters (Declaration of Conformity, changes to the Rules of Procedure) as well as business developments, Group strategy and the 2022 budget. In addition, the Executive Committee discussed Management Board matters (schedule of responsibilities, setting bonus targets for fiscal year 2022, target compensation for fiscal year 2022, dealing with the Management Board remuneration system).

Audit Committee:
The Audit Committee met five times in total.

At the meeting on February 25, 2021, the Audit Committee dealt mainly with the Company's annual and consolidated financial statements for 2020, as well as the Group non-financial report and the dependency report to be prepared for the first time for 2020. In the same meeting, the Audit Committee discussed the proposal for the election of the auditor for 2021 and prepared the groundwork for the plenary Supervisory Board to issue the audit engagement. The Audit Committee saw no need to recommend to the Supervisory Board additional focal points for the auditor's activities beyond the statutory mandate. Governance issues and the expected reaction of the capital market to the 2020 annual figures were also discussed.

At the meetings held on April 27, 2021, August 6, 2021, and October 22, 2021, the drafts of the half-year financial report and interim statements were discussed prior to their publication (the half-year financial report was also discussed with the auditor). Focal issues were the development of the Group's business and financial situation as well as the market situation and, in particular, the development of steel prices in the reporting year. All this was discussed on the basis of Management Board reports and the key performance indicators with the CFO present (and with the CEO in attendance at the meetings on August 6, 2021, October 22, 2021 and December 13, 2021). The expected response of the capital market was also discussed. The Audit Committee brought up points and suggestions that were incorporated into the final versions of the half-year financial report and the quarterly statements. Furthermore, other topics were regularly dealt with on the occasion of interim reporting, in particular those topics relating to governance (the internal control system, risk management, compliance, data privacy and information security), as well as aspects of corporate financing and the committee's internal activity list. The FISG and its implementation, its effects on the Group and on the work of the Audit Committee, and the audit of the financial statements (quality audit, etc.) were the subject of the meetings held in April, August and December. Also in the April meeting, the Audit Committee revisited the audit findings of Internal Audit for fiscal year 2020 in a follow-up to the December 2020 meeting and discussed transfer pricing in the Group.

The meeting on December 13, 2021 primarily addressed governance matters relating to internal control (the internal control system, the risk report, 2021 internal audit findings and the 2022 audit plan) and matters relating to compliance (audit report on the compliance management system), as well as the annual report on GRC (governance, risk and compliance) topics. Committee-related topics (amended requirements under FISG and their implementation, amendments to the Rules of Procedure, dates and agendas for 2022) were also addressed, as was the need to prepare a dependency report for fiscal year 2021.

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

Corporate governance and Declaration of Conformity

On December 13, 2021, the Supervisory and Management Boards issued the Declaration of Conformity in accordance with Section 161 of the German Stock Corporation Act (AktG). The Declaration is permanently available to shareholders on the Company's website. The declaration states that Klöckner & Co SE, with one sole exception, is fully compliant with all recommendations of the Code. Further information on corporate governance can be found beginning on page 86 ff. of this Annual Report. The Management Board and Supervisory Board keep abreast of changes to the Code's recommendations and suggestions, along with their implementation. They also take part in related consultation procedures as required.

Treatment of conflicts of interest

In relation to the Supervisory Board, no instances of conflicts of interest arose in the reporting year that had to be addressed by the Supervisory Board.

Audit of the 2021 annual and consolidated financial statements including the Group non-financial report and the dependency report

Klöckner & Co SE's annual financial statements for fiscal year 2021 and the consolidated financial statements and combined management report were audited and issued with an unqualified audit opinion by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, the auditor elected by the Annual General Meeting and engaged by the Supervisory Board. Klöckner & Co SE's annual financial statements and the combined management report for Klöckner & Co SE and the Group were prepared in accordance with German commercial law. Pursuant to Section 315e of the German Commercial Code (HGB), the consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union. The audit reports and further documentation relating to the financial statements, including the Group non-financial report and the audit report thereon, were made available to all members of the Supervisory Board in a timely manner; the same applies to the dependency report and the audit report on that. These documents were dealt with in detail by both the Audit Committee and the plenary Supervisory Board in the presence of the auditor. In particular, in relation to the annual and consolidated financial statements, the key audit matters described in the relevant audit opinion as well as the audit procedures applied were also discussed. The auditor took part in the discussions, reported on the material findings of their audit and responded to questions. The Management Board was also present or represented at these meetings (following a corresponding resolution by the Supervisory Board or Audit Committee). At the Supervisory Board meeting held on March 1, 2022 to approve the annual financial statements, the Chairwoman of the Audit Committee reported on the Audit Committee's consultations on the annual and consolidated financial statements and the combined management report. With regard to the risk early warning system, the auditor stated that the Management Board had taken the measures required in Section 91 (2) of the German Stock Corporation Act in an appropriate manner – in particular for establishing a monitoring system – and that the monitoring system was capable of promptly identifying developments threatening the Company's ability to continue as a going concern. The same applies with regard to the internal control system (including the compliance management system) and the risk management system to be implemented in accordance with Section 91 (3) German Stock Corporation Act (AktG). The Supervisory Board received and approved the auditor's findings and the explanations provided by the Chairwoman of the Audit Committee. On completion of its own examination of the Company's annual financial statements, the consolidated financial statements and the combined management report, as well as in line with the Audit Committee's recommendation, the Supervisory Board concluded that there were no objections to be raised. At its meeting on March 1, 2022, the Supervisory Board approved the annual and consolidated financial statements prepared by the Management Board; the financial statements were thus adopted.

The Remuneration Report for the fiscal year 2021 contained in the Annual Report was prepared jointly by the Management Board and the Supervisory Board in accordance with Section 162 (1) of the German Stock Corporation Act (AktG). It was also reviewed by the auditor for its content. This audit did not give rise to any objections.

As part of its examination, the Supervisory Board also examined the Group non-financial report contained in the Annual Report (in the separate sustainability reporting section) that was required to be prepared in accordance with Section 315b of the German Commercial Code (HGB). This plausibility check by the Supervisory Board covered the following aspects in particular: (i) the review of processes relating to data collection, the determination of non-financial key performance indicators (KPIs), and the presentation of risks and concepts in the Group non-financial statement, (ii) the timeliness of measures taken in the reporting year, and (iii) EU taxonomy reporting. The Supervisory Board was supported in its examination by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt: PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt, was requested to perform a limited assurance engagement on the Group non-financial report and prepared a corresponding report which it submitted to the Supervisory Board, and reported on its activities verbally to the Supervisory Board. The report by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt, and the Group non-financial report were discussed and validated in detail both by the Audit Committee and by the plenary Supervisory Board. The Supervisory Board noted with approval the findings of the limited assurance engagement performed by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt, and, following its own examination, came to the conclusion that the Group non-financial report meets the applicable requirements and that there are no objections to be raised.

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

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

- the factual disclosures in the report are correct,

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

The Supervisory Board has examined the dependency report. On March 1, 2022, the dependency report and the auditor’s audit report were addressed in detail and discussed with the auditor by the Audit Committee and the plenary Supervisory Board; the Supervisory Board noted the auditor’s findings with approval. On completion of its own examination, and in line with the Audit Committee’s recommendation, the Supervisory Board concluded that there were no objections to be raised to the dependency report including the Management Board’s concluding statement.

Changes on the board
The composition of the Supervisory Board of Klöckner & Co SE changed as follows in fiscal year 2021: Prof. Dr. Karl-Ulrich Köhler stepped down from the Supervisory Board at the end of his term of office at the close of the Annual General Meeting on May 12, 2021. As his successor, the Annual General Meeting on May 12, 2021 elected Uwe Röhrhoff, who was already a temporary member of the Company’s Supervisory Board (and its Deputy Chairman) in 2017 and 2018. The Supervisory Board would like to thank Prof. Dr. Karl-Ulrich Köhler for five years of dedicated cooperation in the plenary Supervisory Board and on the Audit Committee.

The composition of the Management Board of Klöckner & Co SE changed as follows in fiscal year 2021: Long-serving CEO of the Company Gisbert Rühl stepped down from the Management Board at the close of May 12, 2021. Guido Kerkhoff has been serving as CEO since May 13, 2021. The Supervisory Board expresses its thanks and appreciation to Gisbert Rühl for his achievements at the helm of the Company. Bernhard Weiß was newly appointed to the Management Board as CEO Europe effective June 1, 2021. Finally, the appointments of Dr. Oliver Falk and John Ganem were extended early until 2025.

The Supervisory Board would like to thank the Management Board, all employees and the employee representatives of Klöckner & Co SE as well as of all Group companies for their dedication and hard work during the past fiscal year: they made the excellent result achieved possible in the first place.

Duisburg, March 1, 2022

Prof. Dr. Dieter H. Vogel
CHAIRMAN

SUPERVISORY BOARD

Supervisory Board

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

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

Prof. Dr. Karl-Ulrich Köhler
CEO of SHS-Stahl-Holding-Saar GmbH, Dillingen / Saar, Germany
(until May 12, 2021)

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

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

Uwe Röhrhoff
Independent consultant and member of the Supervisory Board
(since May 12, 2021)

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

Executive Committee
(also the Personnel Committee and the Nomination Committee)

Prof. Dr. Dieter H. Vogel
Chairman

Dr. Ralph Heck

Prof. Dr. Friedhelm Loh

Audit Committee

Ute Wolf [1)]
Chairwoman

Prof. Dr. Karl-Ulrich Köhler
(until May 12, 2021)

Uwe Röhrhoff
(since May 12, 2021)

Prof. Dr. Dieter H. Vogel

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

Klöckner & Co on the capital market

KLÖCKNER & CO SHARES

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

€10.72

Year-end closing share price on December 30, 2021

SHARE PRICE PERFORMANCE

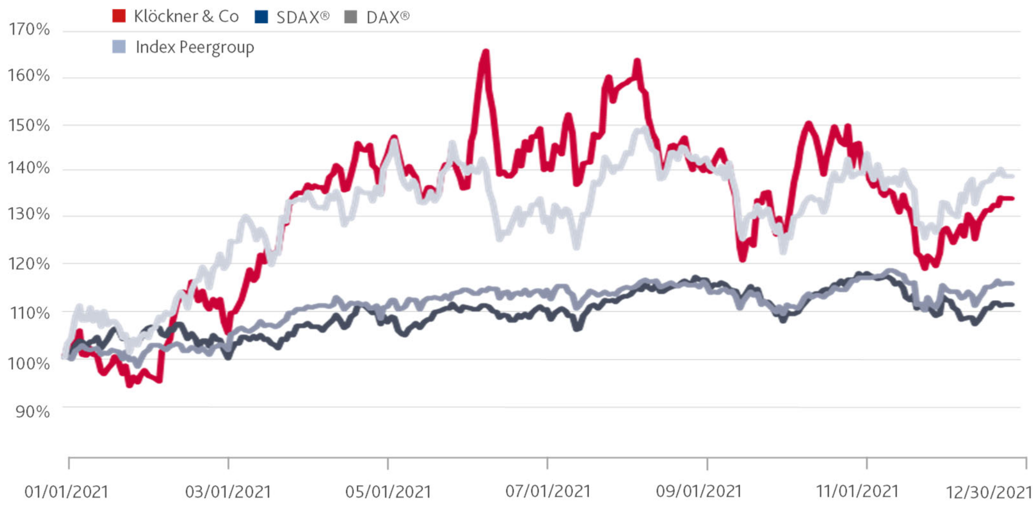
International equity markets continued to be affected in 2021 by the COVID-19 pandemic and its economic impacts. Klöckner & Co's share price initially followed a strong positive trend in the first half of 2021. After a low of €7.51 on January 27, the share price reached a high of €13.26 on June 14. Against a backdrop of ongoing uncertainty due to the pandemic, the share price was highly volatile for the remainder of the year and lost ground before gaining significantly again toward the year-end. Our shares closed the year on December 30 at €10.72.

KEY DATA – KLÖCKNER & CO SHARE

		2021	2020	2019	2018	2017
Share Capital	€	249,375,000	249,375,000	249,375,000	249,375,000	249,375,000
Number of shares	in shares	99,750,000	99,750,000	99,750,000	99,750,000	99,750,000
Closing price (Xetra®, Close)	€	10.72	8.01	6.28	6.06	10.29
Market capitalization	€ million	1,069	798	626	604	1,026
High (Xetra®, Close)	€	13.26	8.60	7.29	11.62	12.89
Low (Xetra®, Close)	€	7.51	2.74	4.35	5.98	9.03
Earnings per share (basic)	€	6.21	– 1.16	– 0.56	0.68	1.01
Average daily trading volume	in shares	447,647	462,280	751,631	537,078	619,819
Dividend per share[1)]	€	1.00	-	-	0.30	0.30
Dividend yield based on closing stock price	%	9.3	-	-	5.0	2.9
Total dividend paid[1)]	€ million	99.8	-	-	29.9	29.9

[1)] In each case for the fiscal year. 2021: Proposal to the Annual General Meeting on June 1, 2022.

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

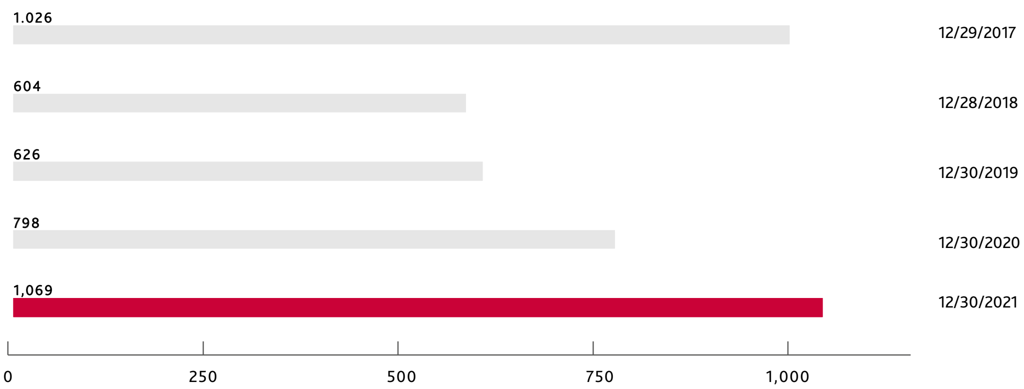


Over fiscal year 2021, the Klöckner & Co share price gained around 34% on the prior-year closing price. The Klöckner & Co share is benchmarked against a peer group index, which rose by approximately 39% in the reporting period. This index tracks the share price performance of companies that are comparable to Klöckner & Co and is based on thyssenkrupp, Salzgitter, Arcelor Mittal, Voestalpine, Swiss Steel, Reliance, Olympic Steel and Ryerson. The DAX® and SDAX® indices gained 11% and 16% respectively year-on-year. In Deutsche Börse AG's December 2021 joint rankings of DAX®, MDAX® and SDAX® stocks covering a total of 160 companies, Klöckner & Co shares ranked 133rd by free float market capitalization and 102nd by trading volume.

MARKET CAPITALIZATION

The Company's market capitalization was approximately €1,069 million at the end of the reporting period, compared with €798 million as of December 30, 2020.

MARKET CAPITALIZATION
(in €m)



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

PERFORMANCE OF THE KLÖCKNER & CO CONVERTIBLE BOND

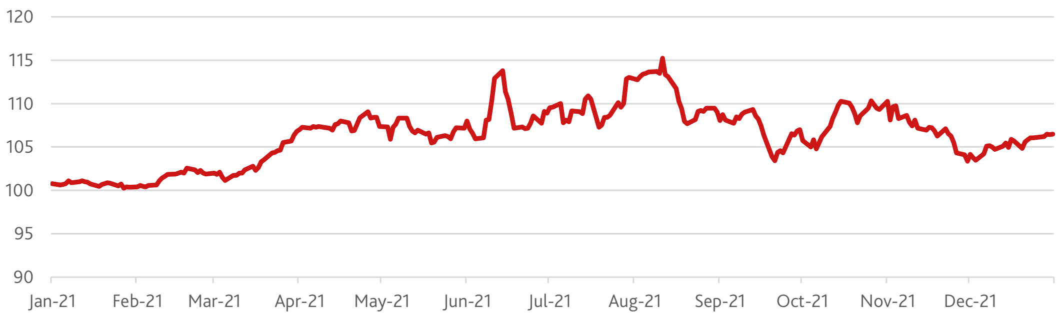
Klöckner & Co SE launched a €148 million convertible bond issue in September 2016 with a maturity of seven years and a denomination of €100,000 per bond. As intended, the bonds were taken up exclusively by institutional investors. The bonds feature a coupon of 2.00% p.a. and are traded on the Open Market at the Frankfurt Stock Exchange (Open Market, ISIN DE000A185XT1). The conversion price was initially set at €14.82 and most recently modified to around €13.33 in connection with the dividend payment for 2019. Klöckner & Co used the proceeds from the issue for general business purposes. Holders of the convertible bond – as expected – did not exercise their right of early redemption (investor put option) as of September 8, 2021.

KLÖCKNER & CO CONVERTIBLE BOND: KEY DATA

	Convertible Bond 2016
Convertible Bond	2016
German securities code	A185XT
ISIN	DE000A185XT1
Issue volume	€147.8 million
Issue date	September 8, 2016
Maturity date	September 8, 2023
Coupon p. a.	2.00%
First Conversion price	€14.82

On December 31, 2021, the 2016 convertible bond was trading at approximately 106.47%.

CONVERTIBLE BOND 2016



2021 ANNUAL GENERAL MEETING

The 15th Annual General Meeting of Klöckner & Co SE was held on May 12, 2021. In order to protect the health of our shareholders and employees in light of the ongoing COVID-19 pandemic, the Annual General Meeting was held virtually, without the physical presence of shareholders or their proxies. This decision was made by the Management Board with the consent of the Supervisory Board on the basis of the Act Concerning Measures Under the Law of Companies, Cooperative Societies, Associations, Foundations and Commonhold Property to Combat the Effects of the COVID-19 Pandemic.

Annual General Meeting attendance more than 60%

All shareholders were able to follow a livestream of the entire meeting via the online service on the Klöckner & Co SE website, www.kloeckner.com. Using the same service, they were also able to register for the Annual General Meeting, vote and submit questions to the Company in advance. For the first time, the entire Annual General Meeting was livestreamed on the website for the public. The speeches by Supervisory Board Chairman Prof. Dr. Dieter H. Vogel, CEO Guido Kerkhoff and former CEO Gisbert Rühl remain available there for viewing. In total, more than 60% of the voting capital voted on resolutions.

GROUP OF ANALYSTS

Financial analysts continued to show strong interest in Klöckner & Co SE in 2021. Klöckner & Co shares were regularly covered by twelve analysts during the reporting period. In total, some 120 analysis reports were published on our stock. As of the year-end, 45% of securities houses gave our shares a "buy" recommendation, 45% gave a "hold" recommendation and 10% a "sell" recommendation. We provide an up-to-date overview of current analyst recommendations relating to our stock on our website under "Investors/Shares/Analysts".

12

Analysts covered Klöckner & Co shares in fiscal year 2021

The following banks and securities houses had coverage of Klöckner & Co shares as of the end of 2021:

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

25%

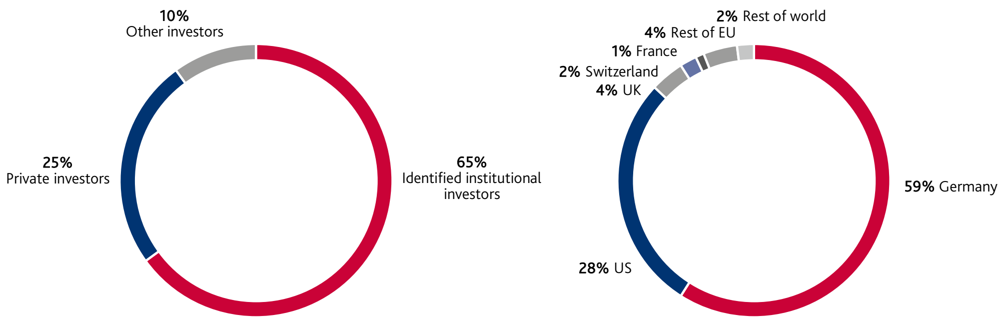
of the share capital is held by private investors

OWNERSHIP STRUCTURE

Klöckner & Co once again commissioned regular analyses in 2021 in order to ascertain the ownership structure and the international distribution of investors. The analyses made it possible to conduct targeted investor relations activities for specific groups and enabled effective roadshow and conference planning. Some 97% of investors were identified in February 2022. Institutional investors accounted for approximately 65% of share capital held. About 25% of the share capital was held by retail investors.

SHAREHOLDER STRUCTURE OF KLÖCKNER & CO SE

GEOGRAPHIC BREAKDOWN OF IDENTIFIED INSTITUTIONAL INVESTORS OF KLÖCKNER & CO SE



According to voting rights notifications, our largest shareholder at the end of the reporting year was SWOCTEM GmbH (Prof. Dr. Friedhelm Loh) with a shareholding of between 25% and 30%, followed by The Goldman Sachs Group, Inc. and Claas Edmund Daun with between 3% and 5% (percentages of voting rights from shares and instruments).

OPEN AND CONTINUOUS COMMUNICATION

In-depth communication with institutional and private investors

For Klöckner & Co, open, transparent and ongoing dialog is equally important with all capital market participants. Members of the Management Board and the Investor Relations team therefore kept domestic and international investors up to date at numerous events with regard to the current performance of the business and future opportunities for the Klöckner & Co Group. Due to restrictions relating to COVID-19, the bulk of investor relations activities in 2021 once again took place using virtual formats such as video and teleconferencing.

In addition to the (virtual) Annual General Meeting, at which shareholders had the opportunity to obtain comprehensive information about the Company, we provided private and institutional investors with information about Klöckner & Co SE at a large number of conferences and roadshows in Europe and North America. We also held a large number of one-on-one meetings with capital market participants. Discussions focused primarily on the operating business of the Klöckner & Co Group, the new Group strategy and the earnings impacts of the international steel price trends.

Our website is a central part of our capital market communication. On the investor relations section of our website, www.kloeckner.com/en/investors.html, we provide, in digital form, all key information surrounding Klöckner & Co shares and the convertible bond. Topics include financial reports, corporate and capital market presentations, the forecast development of key performance indicators, the financial calendar and current data on share performance. Visitors can use an interactive tool to analyze our stock and key financial figures. We also publish all relevant content on the Annual General Meeting.

Interested capital market investors can also follow Klöckner & Co on Twitter and LinkedIn for current news on our Company, our shares and our capital market story.

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

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

CONTACT

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Fax: + 49 (0) 203 307 5025
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GROUP MANAGEMENT REPORT

Klöckner & Co SE Combined Management Report for Fiscal Year 2021

The statements marked in the management report with these parentheses [ ] are unaudited voluntary content that has been critically read by the auditor

1. Fundamental information about the Group

1.1 Group structure

Segment reporting and accordingly the reporting system were modified as of July 1, 2021. The European distribution business under the former Kloeckner Metals Distribution Europe and Kloeckner Metals Services Europe segments were combined into a new segment, Kloeckner Metals EU. At the same time, the distribution business in the United Kingdom was combined with the former Kloeckner Metals Switzerland segment to form the new Kloeckner Metals Non-EU segment.

The reporting system is consequently now divided into three segments: Kloeckner Metals US, Kloeckner Metals EU and Kloeckner Metals Non-EU. Headquarters functions not allocated to a segment are reported separately, together with consolidation adjustments, under Headquarters and Others.

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

1.2 Business activities/business model

Around 140 distribution and service locations in 13 countries

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

We provide customers with an optimized, end-to-end solution from procurement through logistics to prefabrication, including individual delivery and 24-hour service – processes we are increasingly digitalizing. For example, we employ a variety of digital applications and platforms that provide our customers and business partners with access to a broader spectrum of steel and metal products as well as services. We are constantly developing this digital portfolio in partnership with our customers. In addition, we see significant opportunities in the transformation toward sustainable business models, and in this connection we are already working to provide our customers with zero- and near-zero-emission steel in order to help them build a sustainable value chain.

Our approximately 7,200 employees apply their skills and enthusiasm every day to meeting our customers' needs and wishes. Around 70% of our workforce is employed in Europe and 30% in the Americas.

Both in Europe and North America, the market for warehouse-based distribution and steel service centers is highly fragmented and is served by an assortment of different wholesale, regional and local dealers. We have an estimated market share of approximately 10% in Europe and around 7% in the USA, putting us among the [top three distributors and top two steel service centers] in both regions.

1.3 Corporate strategy

Implementation of our "Klöckner & Co 2025: Leveraging Strengths" strategy

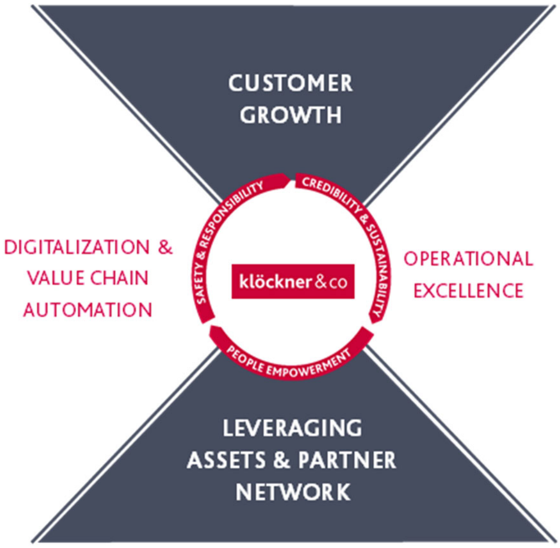
[“Klöckner & Co 2025: Leveraging Strengths” – our strategy

At the Annual General Meeting in May 2021, we presented our new strategy, “Klöckner & Co 2025: Leveraging Strengths.” In it, we essentially distinguish between four levers: Customer Growth, Leveraging Assets & Partner Network, Digitalization & Value Chain Automation, and Operational Excellence. With our strategy, we are building on the various strengths we have created in recent years and leveraging them to take the next evolutionary step, leading Klöckner & Co into a successful future.

The market environment in the steel distribution business is very complex and challenging. It is characterized by high market fragmentation, lagging digitalization and increasing demand for customized solutions. But this also presents diverse opportunities and potential for those who are willing to lead the way. After spending recent years tackling these challenges, Klöckner & Co has amassed special capabilities and expertise. Our digital transformation is well advanced and, thanks to the consistent execution of the Surtsey project, we have improved our cost base substantially. Optimizing our procurement structure has enabled us to implement data-driven decision making and strengthen international collaboration. Moreover, Klöckner & Co, together with its sub-brands, is known for high quality and enjoys an excellent reputation internationally. We have launched radical and comprehensive cultural change within the Company. Building on this foundation, we are taking Klöckner & Co to the next level on the way to becoming a digital platform company.

We aim to generate added value for all of our Company's stakeholders. Customers and business partners benefit from seamlessly integrated, digitalized and automated processes. For employees, we aim to foster a culture of empowerment and collaboration, upskilling them for the future and enabling them to grow and develop. For shareholders, our focus on a higher level of profitability also means a focus on the sustainable financial success of their investment in Klöckner & Co. Furthermore, we strive to make a positive impact on society and the environment.

We aim to intensify Klöckner & Co’s platform-based focus, merge the digital and the physical sides of our business more closely together and make better use of our internal and external networks. Inefficiencies in low-margin steel and metal distribution are still primarily caused by linear supply chains and lack of transparency. By integrating third parties into our single platform while digitalizing and automating core processes as the next step in Klöckner & Co’s evolution, we will be able to eliminate existing inefficiencies in the value chain and significantly lower variable costs.



Customer Growth
We always aspire to exceed our customers' expectations and maximize their benefit. By focusing uncompromisingly on their needs, we aim to achieve the highest customer satisfaction in the industry. This requires an extension of our product and service portfolio and larger regional coverage. With our integrated platform, we aim to become a one-stop shop with a fast-track, best-in-class user experience. That will grow our client base and increase our share of wallet: customers will buy more from us, and more customers will buy from us.

Leveraging Assets and Partner Network
Beyond integrating existing partners into internal processes along the value chain to achieve efficiency gains, we aim to optimize our internal network and asset utilization by increasing international collaboration. We also plan to take new partners on board with complementary products and competencies outside Klöckner & Co's core portfolio.

Digitalization and Value Chain Automation
Building on our pioneering role in the steel industry, we are further exploiting the significant potential of digitalization – and are now extending it to the level of automation. We continue to develop innovative digital solutions and digitalize our internal core processes. With seamless, end-to-end process integration featuring a very high degree of digitalization and automation, we can take process speed and efficiency to unparalleled levels along the entire value chain. Our goal is "zero touch", meaning value generation with minimum manual effort. In the reporting period, our proprietary AI solution Kloeckner Assistant already handled over €1 billion in sales. This is now a key tool in the automated processing of quotations and orders.

Operational Excellence
In order to deliver the most efficient solutions and best service to our customers, we are continuously improving our operations. Excellence is our benchmark. By eliminating inefficiencies in our internal processes, we are optimizing our operational results and increasing profitability. We continue to further advance excellence in operations and sales through process automation, increased cost and process transparency, data-driven decision-making and organizational measures.

Corporate values

Our values form the foundation for our new strategy: We are committed to staff empowerment, safety, responsibility, credibility and sustainability. These values determine our decisions and actions every day, both internally and externally. A motivating style of leadership, empowering people and fostering a culture of innovation through self-determination, talent development and incentivization are the basis for this. They allow us to advance our innovative capacity, explore opportunities and create new business value. We continuously improve our organization, becoming more agile and adaptable to thrive in an environment of continuous change.

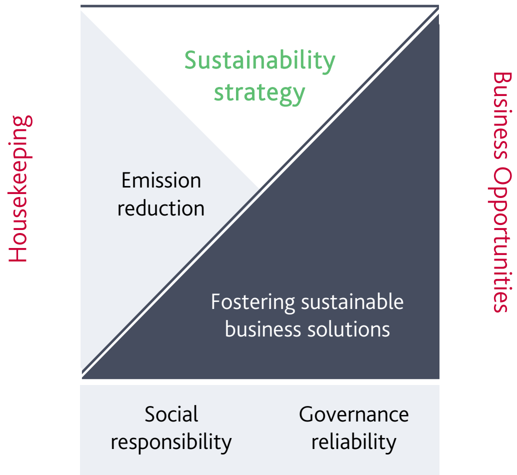
We exercise responsibility in issues relating to the environment, safety and society. This commitment must be reflected in all our actions and decisions. By enforcing the highest safety standards, we ensure a safe working environment that protects our employees. In terms of integrity, we are a transparent, authentic and modern company and deliver on our promises. We demonstrate accountability and commitment to our decisions and actions, and we foster a culture of dealing openly with failures.

The beginning of 2022 also saw us develop a purpose statement. “Purpose” means the reason for a company’s existence, its raison d’être or the description of what the company does to create value for its stakeholders. Klöckner & Co’s purpose statement is as follows:

“We partner with customers and suppliers to deliver innovative metal solutions for a sustainable tomorrow.”

With the initiatives that form our “Klöckner & Co 2025: Leveraging Strengths” strategy, we will merge the digital with the physical business and take them to the next level. By 2025, Klöckner & Co will be the leading digital one-stop-shop platform for steel, other materials, equipment and processing services in Europe and the Americas.

Sustainability strategy
Sustainability is at the center of our “Leveraging Strengths” strategy. We approach sustainability from a cross-cutting environmental, social and governance (ESG) perspective and integrate it into our strategic planning. Social responsibility and reliable corporate governance are integral elements here alongside the environmental dimension.



On the basis of our Group strategy, we are working on creating a comprehensive portfolio of sustainable products and services, thus establishing ourselves as pioneers of a sustainable steel industry. As a first step, by partnering with the Swedish start-up H2 Green Steel (H2GS), we have already secured significant quantities of “green” steel. In expanding our sustainable products and service portfolio, we are seizing the strategic opportunity to integrate the new, attractive business area of sustainable services into our business model.

We see our sustainable transformation as a unique opportunity to advance our development and pave avenues for growth – not just in ten years’ time, but in the present as well. Our materials will be able to play a more important role in the circular economy of the future, as steel is 100% recyclable. And that goes further than merely switching out steel for green or greener steel. We see our responsibility for lowering our own emissions as well as those in our upstream and downstream supply chains. As a pioneer in the industry and one of the few players in the steel sector, we have therefore signed up to the Science Based Targets initiative (SBTi) Business Ambition for 1.5°C – the world’s most ambitious and significant framework for emission reduction. Our medium-term goals until 2030 have been validated and approved by SBTi:

50% reduction in emissions in our direct control (Scopes 1, 2 and some in Scope 3) by 2030
30% reduction in emissions not in our direct control (Scope 3) by 2030

For the long term, we are committed to reducing directly controllable carbon emissions to net zero by 2040 (Scope 1, Scope 2 and directly controllable Scope 3 emissions). Scope 3 emissions that we can only control indirectly – primarily from externally sourced steel products – are to be cut to net zero by 2050.

Our focus is on carbon-reduction measures. However, it is not possible at present to avoid all emissions along the entire supply chain. Consequently, we will compensate the currently unavoidable Scope 1 and 2 emissions by supporting high-quality climate projects. Thanks to initiatives such as these, Klöckner & Co has already achieved carbon neutrality.]

1.4 Control system

Financial performance indicators

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

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

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

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

Other key figures

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

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

Non-financial performance indicators

Focus on lost time injury frequency rate as most significant non-financial key performance indicator

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

2. Economic report

2.1 Macroeconomic conditions

Economic environment

Macroeconomic situation

Global GDP growth in 2021: 5.9%

The economic recovery from the pandemic-related prior-year downturn continued in 2021. Widespread access to vaccines and increasing vaccination coverage in various economic regions made it possible to relax COVID-19 restrictions, providing for economic stimulus. According to estimates by the International Monetary Fund (IMF), global economic output rose by about 5.9%. Growth momentum was tempered, however, by the spread of additional virus variants over the course of the year. The recovery was tarnished by disruptions in global supply chains and resulting shortages of raw materials and intermediate products – notably semiconductors in the automotive sector – and by accelerating inflation rates due to causes such as rising energy prices and transportation costs. As a result, some sectors were unable to ramp up production fast enough to meet the increased demand. In many countries, pent-up demand and general price increases, most of all for raw materials, also led to consumer price inflation. Economic uncertainties developed particularly toward the year-end with a change in monetary policy strategy at the US Federal Reserve and the worsening real estate crisis in China. On a political level, the economy was impacted by the US-China trade dispute, the inception of the new US administration and the general elections in Germany.

According to the IMF, gross domestic product (GDP) in the eurozone increased by 5.2% year-on-year. Overall, economic output grew significantly in the reporting period relative to the prior year, although international supply chain disruptions slowed the recovery. Supply shortages of numerous materials and commodities severely impacted European production activity on the whole. The semiconductor shortage in particular had a negative effect on the European automotive sector and its industrial supply chains. Conversely, service-related sectors – which were almost completely shut down due to COVID-19 restrictions the year before – benefited from the significant economic recovery.

In the USA, the economy expanded by 5.6% year-on-year according to IMF estimates. The drop in production caused by the impacts of the COVID-19 pandemic was made good over the course of the year. Manufacturing and services also showed solid growth on the back of a robust increase in demand. However, persistent disruptions to supply chains and rising infection figures once again checked economic growth toward the year-end. Stimulus came from the massive USD 1 trillion-plus infrastructure program adopted by the US administration, although the full effect of this will only be felt in future years.

According to the IMF, China's economy grew by 8.1% in the reporting period with strong support from exports. Partly due to catch-up effects, however, this growth slowed somewhat over the course of the year. Consumer services in particular suffered a setback due to the spread of the delta variant and the reintroduction of more stringent quarantine restrictions. Industrial production was negatively impacted by the temporary closure of key domestic container ports due to the pandemic. Confidence was further hit by concerns about impending loan defaults in the Chinese real estate sector.

Development of GDP (in percent)	2021 vs. 2020
Europe*)	**5.2**
Germany	2.7
United Kingdom	7.2
France	6.7
Belgium	6.0
Netherlands	4.6
Switzerland	3.5
China	8.1
USA	**5.6**
Brazil	4.7

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

Global crude steel production up by 3.6%

Industry-specific situation

The global economic recovery in 2021 also had a significant impact on Klöckner & Co's immediate market environment. According to the World Steel Association, global crude steel production increased by 3.6% year-on-year to 1,912 million tons in 2021. Production went up by about 15.4% in the European Union and about 18.3% in the USA. In China, the trend went in the opposite direction in 2021 to that in the EU and the USA, with an approximately 3.0% fall in crude steel production. At the end of December 2021, analysts estimated that steel producers worldwide were operating at around 74% capacity. The significant supply shortages in 2020 combined with the rapid demand recovery in the reporting year resulted in very steeply rising steel prices. Steel prices remained at a significantly higher level at the end of fiscal year 2021 than before the onset of the pandemic.

Steel production

(in million tons)	2021	2020	Variance
France	13.9	11.6	20.3%
Germany	40.1	35.7	12.3%
United Kingdom	7.4	7.1	3.9%
EU-27, total	**152.5**	**132.1**	**15.4%**
Rest of Europe	**51.2**	**45.9**	**11.6%**
C.I.S.	**105.6**	**100.0**	**5.6%**
United States	86.0	72.7	18.3%
Rest of North America	31.8	28.3	12.3%
North America total	**117.8**	**101.0**	**16.6%**
South America	**45.6**	**38.7**	**17.8%**
Africa	**16.0**	**12.6**	**26.7%**
Middle East	**41.2**	**40.7**	**1.2%**
China	1,032.8	1,064.7	– 3.0%
Rest of Asia	342.7	303.0	13.1%
Asia total	**1,375.5**	**1,367.7**	**0.6%**
Oceania	**6.5**	**6.1**	**6.4%**
Global	**1,911.9**	**1,845.5**	**3.6%**

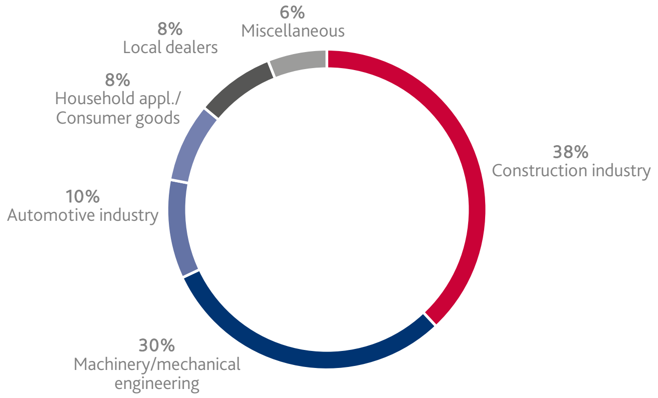
Source: World Steel Association (as of January 2022); partly preliminary figures.

2.2 Sector environment

CUSTOMER SECTORS OF KLÖCKNER & CO SE (BY SALES)

Klöckner & Co's highest revenue customer sector in 2021 was the construction industry, accounting for 38% of sales, followed by machinery and mechanical engineering with 30%. The third-largest customer sector was the automotive industry, with sales of 10%.

SALES BY CUSTOMER SECTOR



2.3 Trend in key customer industries

Construction industry

Oxford Economics estimates that the Eurozone construction industry grew in the reporting period by around 6%. Private residential construction showed particularly strong growth. This sector continued to benefit from favorable borrowing terms and government subsidy programs. In the USA, the construction industry grew by about 7% year-on-year. The US construction industry likewise benefited from a strong recovery in the residential construction sector and unabated growth in demand for single-family homes. This contrasted with a slight decline in commercial building construction.

Machinery and mechanical engineering

After a significant decline in 2020, output in the machinery and mechanical engineering sector recovered in 2021 by about 11% in the eurozone and about 12% in the USA according to Oxford Economics estimates. The substantial growth reflects increased confidence within the sector, in particular with regard to uncertainty factors, and a favorable investment environment as a result of government support measures. Ongoing global supply chain issues are having a negative impact on machinery and mechanical engineering.

Automotive industry

The global automotive market initially benefited from catch-up effects early in the year. However, the positive trend was slowed in the second half of the reporting period by the semiconductor shortage. Over the course of the year, material shortages proliferated to numerous material groups such as intermediate products and raw materials and had a severe impact on production. The industry also labored under rising energy and logistics costs. According to the German Association of the Automotive Industry (VDA), unit sales in Europe went down by some 2% in 2021 and, as a result, were unable to recover the prior-year shortfall due to the pandemic. Sales on the US market were around 3% above the prior year's level. Automobile sales in China increased by about 7% year-on-year.

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

Our guidance for the reporting period set out in the Annual Report 2020 applied in accordance with our segmentation as it was at the time and was based on the assumption of continued economic recovery in our customer sectors, notably in the form of a significant rise in real steel demand. The expected recovery gradually continued, but various customer sectors suffered from major restrictions within their supply chains as a result of the pandemic. Significant recovery was prevented in particular by the shortage of semiconductors in the automotive industry. Furthermore, the material shortages in the steel sector caused prices to rise faster than expected and to reach considerable levels during the reporting period.

The restricted availability of materials in the steel sector caused disruptions on the supply side for Klöckner & Co and, in conjunction with additional supply chain problems in our customer industries, had the result that the Group's shipments stayed constant relative to the prior year. We addressed the reduced material availability in the steel sector in the reporting year with strict net working capital management and a resolute margin-over-volume strategy. The forecast last year had been for considerable growth in shipments. As a result of the semiconductor shortage, especially in the automotive industry, shipments in the Kloeckner Metals Services Europe segment fell considerably, in contrast to our prior-year expectation of a considerable increase.

Group sales rose considerably, in line with our expectations, with a price-driven increase to approximately €7.4 billion (2020: €5.1 billion). This positive price trend was reflected in all segments.

Consolidated EBITDA before material special effects increased considerably, as forecast, and was at €848 million in the reporting year (2020: €111 million). Our resolute margin-over-volume strategy, supported by the effects of the Surtsey project, enabled us to benefit substantially from the positive price dynamic. Whereas in the prior year we had expected a considerable decrease for the Kloeckner Metals Switzerland segment, EBITDA before material special effects in that segment showed a considerable increase, contrary to our expectations.

Moreover, we expected a considerable decline in cash flow from operating activities in the reporting year after the very strong figure of €161 million in fiscal year 2020. In line with our assumptions, cash flow declined considerably – to a negative €306 million – notably as a result of cash outflows due to the very high prices of steel and metal products. The process to fully fund pension obligations also resulted in cash outflows in the reporting period.

	Shipments		Sales	
	Development 2021	Previous year's forecast for 2021	Development 2021	Previous year's forecast for 2021
Kloeckner Metals US	Slight increase	Considerable increase	Considerable increase	Considerable increase
Kloeckner Metals Switzerland	Constant	Slight increase	Considerable increase	Slight increase
Kloeckner Metals Services Europe	Considerable decrease	Considerable increase	Considerable increase	Considerable increase
Kloeckner Metals Distribution Europe	Constant	Slight increase	Considerable increase	Slight increase
Group	**Constant**	**Considerable increase**	**Considerable increase**	**Considerable increase**

	EBITDA before material special effects		Cash flow from operating activities	
	Development 2021	Previous year's forecast for 2021	Development 2021	Previous year's forecast for 2021
Kloeckner Metals US	Considerable increase	Considerable increase	Considerable decrease	Considerable decrease
Kloeckner Metals Switzerland	Considerable increase	Considerable decrease	Considerable decrease	Considerable decrease
Kloeckner Metals Services Europe	Considerable increase	Considerable increase	Considerable decrease	Considerable decrease
Kloeckner Metals Distribution Europe	Considerable increase	Considerable increase	Considerable decrease	Considerable decrease
Group	**Considerable increase**	**Considerable increase**	**Considerable decrease**	**Considerable decrease**

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

2.5 Workplace injury frequency

We measure the frequency of workplace injuries using the key performance indicator of lost time injury frequency (LTIF). This is defined as the number of accidents/number of hours worked x 1,000,000. The indicator was reduced from 9.7 in the prior year to 6.9 in the 2021 reporting year. This brought the Group-wide LTIF significantly below the self-imposed annual target value of less than or equal to 9.0. Against the backdrop of rolling targets for the reduction of Group-wide average accident frequency, the target for 2022 is an LTIF value of less than or equal to 7.6.

2.6 Results of operations, financial position and net assets

Effects of the COVID-19 pandemic

The COVID-19 pandemic continued to influence Klöckner & Co's business environment during the reporting period. Following the severe upheavals due to the outbreak of the pandemic in fiscal year 2020, the recovery essentially continued in 2021. Increasing vaccination coverage and other pandemic containment measures contributed significantly to the recovery. Economic uncertainty relating to the pandemic abated overall, although renewed outbreaks and the emergence of further COVID-19 variants slowed the positive trend. As the economic recovery progressed, however, isolated supply chains repeatedly broke down or severe difficulties arose in restoring them. The restricted availability of materials in the steel sector also caused major disruptions on the supply side for Klöckner & Co. Strict net working capital management and a resolute margin-over-volume strategy enabled Klöckner & Co to keep shipments stable. The supply-demand mismatch also heavily impacted global steel prices. Both in the USA and in Europe, steel prices rose strongly over the course of the year to reach record levels. The positive price trend had a significant positive effect on Klöckner & Co's sales and operating income.

Global supply chain disruptions for various input materials also affected Klöckner & Co's core customer industries. The automotive industry in particular was significantly impacted in the reporting period by supply chain disruptions and the semiconductor shortage, and in some cases remained below pre-crisis levels in terms of unit sales. Its broad industry mix enabled Klöckner & Co to mitigate the negative impact on shipments in sectors affected by supply chain disruptions.

Klöckner & Co responded decisively in the reporting period to the ongoing challenges posed by the COVID-19 pandemic. In order to protect the health of our employees, a large proportion of the workforce continues to work from home. The digitalization of our IT infrastructure has proven to be an advantage in this respect. Hygiene measures introduced at our logistics facilities have also been retained, enabling shipments to continue without disruption.

MOST SIGNIFICANT KEY PERFORMANCE INDICATORS ACCORDING TO GAS 20

The most significant key performance indicators for our results of operations, financial position and net assets for fiscal year 2021 – as presented under “Control system” on page 36 – are set out in the following. The consolidated financial statements are prepared in euros. There may be discrepancies relative to the unrounded figures.

(€ million)	2021	2020	Variance	
Shipments (Tto)	4,881	4,873	8	0.2%
Sales	7,441	5,130	2,311	45.0%
EBITDA before material special effects*)	848	111	737	n.a.
EBITDA	879	52	826	n.a.
Cash flow from operating activities	– 306	161	– 467	n.a.

*) 2021: Restructuring related income in connection with the Surtsey project of €30 million, of which sales of real estate in Germany of €10 million and in France of €12 million / 2020: restructuring expenses (€59 million) mainly from social plan obligations (€47 million) in connection with the Surtsey project.

OTHER KEY PERFORMANCE INDICATORS

(€ million)	2021	2020	Variance	
Gross profit	1,893	1,047	846	80.9%
Gross profit margin	25.4%	20.4%		
OPEX*)	– 1,014	– 995	– 19	– 1.8%
EBIT**)	754	– 93	848	n.a.
EBT	748	– 124	872	n.a.
Net income	629	– 114	744	n.a.
Net financial debt	762	351	411	n.a.
Gearing (Net financial debt / shareholders' equity***))	42%	34%		8%p
Leverage (Net financial debt / EBITDA before material special effects)	0.9x	3.2x		– 2.3

*) OPEX = Own work capitalized plus other operating income less personnel expenses less other operating expenses.
**) Includes impairments in the amount of €14 million in 2020.
***) Consolidated equity less non-controlling interests and less goodwill from business combinations subsequent to May 23, 2019.

Shipments and sales

Sales increased by 45.0% in fiscal year 2021 on the same level of shipments – 4.9 million tons – as in the prior year. Across all operating segments, the increase relates to the positive steel price trend in fiscal year 2021. The currency-adjusted increase in Group sales was 47.5%.

SALES BY SEGMENTS

			Variance			
(€ million)	2021	2020	Total	Currency effects	Net of currency effects	
Kloeckner Metals US	3,511	2,076	1,435	– 127	1,562	75.2%
Kloeckner Metals EU	2,584	1,952	632	– 1	633	32.4%
Kloeckner Metals Non-EU	1,345	1,102	243	-	243	22.1%
Group sales	**7,441**	**5,130**	**2,311**	**– 128**	**2,439**	**47.5%**

PRICE-DRIVEN SALES GROWTH WITH CONSTANT SHIPMENTS

In the Kloeckner Metals US segment, the major supply shortages on the US steel market and the resulting price increases led in 2021 to very considerable sales growth of 75.2% or €1.6 billion (currency-adjusted) to € 3.5 billion. This segment consequently accounted for 47% of total Group sales in fiscal year 2021, compared with 40% in fiscal year 2020.

We also recorded considerable sales growth in the remaining operating segments as a result of the strong price trend. In the Kloeckner Metals EU segment, sales went up by 32.4% (currency-adjusted) to €2.6 billion in 2021, compared to €2.0 billion in the prior year. Sales in the Kloeckner Metals Non-EU segment likewise increased, with growth of 22.1% year-on-year.

STRONG GROWTH IN GROSS PROFIT

At €1,893 million, gross profit was considerably above the prior-year level (2020: €1,047 million). This, too, is due to the exceptionally positive price trend in a steel sector marked by supply shortages. In this market environment, our resolute margin-over-volume strategy in 2021 and also our exit from low-margin business led to a five percentage point rise in the gross profit margin to 25.4% (2020: 20.4%).

OPEX

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

			Variance			
(€ million)	2021	2020	Total	Currency effects	Net of currency effects	
Other own work capitalized	2	2	-	-	-	-
Other operating income	52	24	28	1	27	115.9%
Personnel expenses	– 598	– 600	2	8	– 6	– 1.0%
Other operating expenses	– 470	– 421	– 49	5	– 55	– 13.0%
OPEX	**– 1,014**	**– 995**	**– 19**	**15**	**– 34**	**– 3.4%**

Comparability of OPEX with the prior year is limited due to special effects. Other operating income, at €52 million, was €27 million higher than in the prior year. This mainly relates to €27 million in non-recurring income from the disposal of various sites as part of the Surtsey project.

Personnel expenses, at €598 million, are virtually at the same level as in the prior year (2020: €600 million). Within the prior-year personnel expenses, €47 million related to special charges for measures in the Surtsey project. The reduction in the workforce as a result of Surtsey cut personnel expenses in fiscal year 2021 by €54 million. This was offset by higher sales-based and earnings-based salary components in the amount of €48 million due to the exceptionally high steel price level and by €11 million in expenses for further reductions in the workforce.

Other operating expenses increased from €421 million to €470 million. The increase is mainly due to higher variable costs of transportation and packaging and to stockholding and maintenance costs. The other operating expenses figure for the prior year included €7 million in expenses for the Surtsey project associated with site closures, compared to €1 million in fiscal year 2021.

Consequently, at €879 million, EBITDA was very considerably higher than the prior-year figure of €52 million. The Company thus generated the best operating income since the IPO in 2006.

GROSS PROFIT AND ADJUSTED EBITDA BY SEGMENT

	2021		2020	
(€ million)	Gross profit	Gross profit margin	Gross profit	Gross profit margin
Kloeckner Metals US	847	24.1%	374	18.0%
Kloeckner Metals EU	652	25.2%	353	18.1%
Kloeckner Metals Non-EU	393	29.2%	320	29.1%
Klöckner & Co Group	**1,893**	**25.4%**	**1,047**	**20.4%**

	2021		2020	
(€ million)	EBITDA	EBITDA margin	EBITDA	EBITDA margin
Kloeckner Metals US	456	13.0%	50	2.4%
Kloeckner Metals EU	294	11.4%	28	1.4%
Kloeckner Metals Non-EU	107	7.9%	60	5.4%
Holding and other group companies	– 8	-	– 27	-
EBITDA before material special effects	**848**	**11.4%**	**111**	**2.2%**
Net adjustments	30	-	– 59	-
Klöckner & Co Group	**879**	**11.8%**	**52**	**1.0%**

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

(€ million)	2021	2020
EBITDA including material special effects	**879**	**52**
Restructuring related inventory devaluation	**– 1**	**5**
Material property disposal gains	**– 27**	**-**
Restructuring expenses		
– Personnel expenses	**– 3**	**47**
– Other restructuring expenses	**-**	**7**
EBITDA before material special effects	**848**	**111**

Gross profit in the Kloeckner Metals US segment, at €847 million, was considerably higher than the €374 million prior-year figure. This was due to the exceptionally positive trend in selling prices on the basis of a smaller increase in inventory prices. Operating income was also significantly increased by positive effects of the Surtsey project on OPEX, disciplined inventory management and rigorous net working capital management. Fiscal year 2021 saw EBITDA before material special effects of €456 million and an EBITDA margin of 13.0% – considerably higher than the €50 million EBITDA figure and the 2.4% EBITDA margin recorded in the prior year. On a currency-adjusted basis, gross profit was €878 million and EBITDA was €475 million.

Due to disproportionately large price rises, gross profit in the Kloeckner Metals EU segment likewise increased from €353 million in the prior year to €652 million. As well as price effects, this considerable improvement is also due to lower OPEX as a result of Surtsey measures and to strict net working capital management. The only factor having an adverse effect comprised the semiconductor shortages, particularly in conjunction with short supplies of steel in the service center supply chain. EBITDA before material special effects came to €294 million, exceeding the prior-year figure by €266 million. The EBITDA margin was 11.4%, versus 1.4% in the prior year.

Strong positive gross profit performance in operating segments

Gross profit in the Kloeckner Metals Non-EU segment went up by €73 million from €320 million in the prior year to €393 million, while the gross profit margin remained near constant at 29.2% (2020: 29.1%.). Following a smaller increase in OPEX than in gross profit due to effects of the Surtsey project, EBITDA in this segment, at €107 million, was likewise considerably higher than the prior year's €60 million. The EBITDA margin was consequently 7.9%, versus 5.4% in the prior year.

EBITDA before material special effects at the holding company and the other Group companies amounted to a negative €8 million (2020: negative €27 million).

RECONCILIATION TO NET INCOME

(€ million)	2021	2020	Variance	
EBITDA	**879**	**52**	**826**	**n.a.**
Depreciation, amortization and impairments	– 124	– 146	21	14.7%
EBIT	**754**	**– 93**	**847**	**n.a.**
Income from investments	11	-	11	-
Financial result	– 17	– 30	13	43.8%
EBT	**748**	**– 124**	**872**	**n.a.**
Income taxes	– 119	9	– 128	n.a.
Net income	**629**	**– 114**	**744**	**n.a.**

Lower depreciation and amortization due to impairments

Depreciation and amortization, at €124 million, was lower than the prior-year figure of €146 million, mainly due to the €14 million in prior-year impairments recognized predominantly as part of the Surtsey project.

EBIT stood at €754 million, compared to a negative €93 million in the prior year. The improvement in the financial result is primarily due to the significantly lower average debt level over the course of the year. In addition, remeasurement of the debt component of the 2016 convertible bond generated one-time interest income of €8 million.

EBT was €748 million, versus a negative €124 million in the prior-year period. The income tax expense for 2021 came to €119 million (2020: tax income of €9 million). At 31.8%, the combined tax rate was unchanged relative to the prior year, whereas the effective tax rate amounted to 15.9% (2020: 7.6%). Tax expense was reduced in the reporting year due to the recognition of deferred tax assets reflecting improved scope for utilizing loss carryforwards in the German tax group.

Net income of €629 million

In total, net income was in positive territory at €629 million in fiscal year 2021, compared with a loss of €114 million in the prior year.

Basic earnings per share came to €6.21, compared with a loss per share of €1.16 in the prior year.

Cash flows, financing and liquidity

Financing and financial management

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

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

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

Syndicated loan

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

Syndicated loan extended early to January 2025 in amend and extend process

Following an initial extension of our syndicated loan by one year in April by the exercise of a contractual extension option, the positive market environment meant that we were able to renew the syndicated loan ahead of term in December. In an amend and extend process, we reduced the facility amount from €300 million to €250 million and extended it on improved terms to January 2025. This further improved the maturity profile of Klöckner & Co's Group finances. The facility is provided by a syndicate of eight banks. Under the financial covenants, as before, gearing – defined as net financial debt divided by the book value of equity less non-controlling interests and less goodwill resulting from acquisitions after May 23, 2019 – may not exceed 165%. Hence, the adjusted book value of equity may not fall below €600 million (minimum equity). Breach of the financial covenants would require repayment of all outstanding amounts. Subsequent drawings would then be possible if the covenants were once again complied with. [Throughout fiscal year 2021, the Group consistently complied with all loan terms, including the financial covenants.]

ASSET-BACKED SECURITIZATION PROGRAMS

ABS program with a volume of €220 million in Europe

Since July 2005, the Klöckner & Co Group has operated a European ABS program. In October 2020, the European ABS program was renewed ahead of schedule on improved terms until November 2023. The size of the program is €220 million. The agreed covenants are also based on the statement of financial position and are equivalent to those for the syndicated loan.

Utilization of the program totaled €189 million as of the reporting date. [The covenants were complied with throughout the reporting period.]

Convertible bond

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

Convertible bond with a volume of €148 million

The coupon on the bonds was set at 2,00% p.a. and the conversion premium at 27.5% over the issue date reference price, corresponding to an initial conversion price of €14.82. The conversion price was most recently modified to €13.33 in connection with the 2019 dividend payment. The term of the convertible bonds is seven years. Under the bond terms, holders have a one-time investor put option under which they can demand early redemption after five years at par value plus accrued interest. The issuer did not have an early call option during the first five years. It does have such an option thereafter provided the market price of Klöckner & Co shares exceeds 130% of the conversion price over certain stipulated periods. As holders of the convertible bond did not exercise their investor put option as of September 8, 2021, the bond was classified as of September 30, 2021 as a non-current financial liability maturing September 2023. The debt component was remeasured through profit or loss at June 30, 2021.

BILATERAL CREDIT FACILITIES AND ASSET-BASED LENDING

The bilateral credit facilities in an amount of approximately €479 million were around 62% drawn (excluding lease liabilities) at the end of 2021.

Most of this is accounted for by the borrowing base (ABL) facility newly arranged at the US country organization in November 2020, which replaced the previous standalone ABS and ABL facilities. The ABL facility matures in March 2024 and is provided by three banks. This is a revolving facility with a facility amount of USD330 million (about €291 million).

Borrowing base facility with a volume of USD330 million in the USA

Also included are our bilateral credit lines in Switzerland totaling CHF160 million (around €155 million), drawings on which totaled only €24 million as of December 31, 2021. These revolving credit lines with three banks were most recently renewed in July and increased by CHF30 million on top of the previous CHF130 million. There are also other bilateral borrowings at the country organizations, used among other things to finance net working capital.

LIQUIDITY MANAGEMENT AND INTER-COMPANY SETTLEMENTS

The Group uses an international cash pooling system to handle inter-company settlements and manage liquidity. Our country organizations in Switzerland, the United Kingdom and the USA are not part of the cash pooling system as they are financed by intra-Group loans or have their own credit facilities. Financing of our Group companies, including working capital for the operating business at the individual country organizations, was secure at all times throughout 2021.

Pension obligations in Germany and the United Kingdom fully funded

In light of our strong earnings in 2021, we used funding in the amount of €243 million in December to fund our pension obligations. As a result, €190 million in pension obligations in Germany are fully funded under a contractual trust arrangement (CTA). In the United Kingdom, we transferred GBP45 million in liquid assets to a local trustee.

Funding gap on pension obligations largely closed

The funds invested in the trust arrangements enable us to largely close the funding gap on our pension obligations in Germany and the United Kingdom by offsetting. This will relieve our operating cash flow by around €15 million annually in future years.

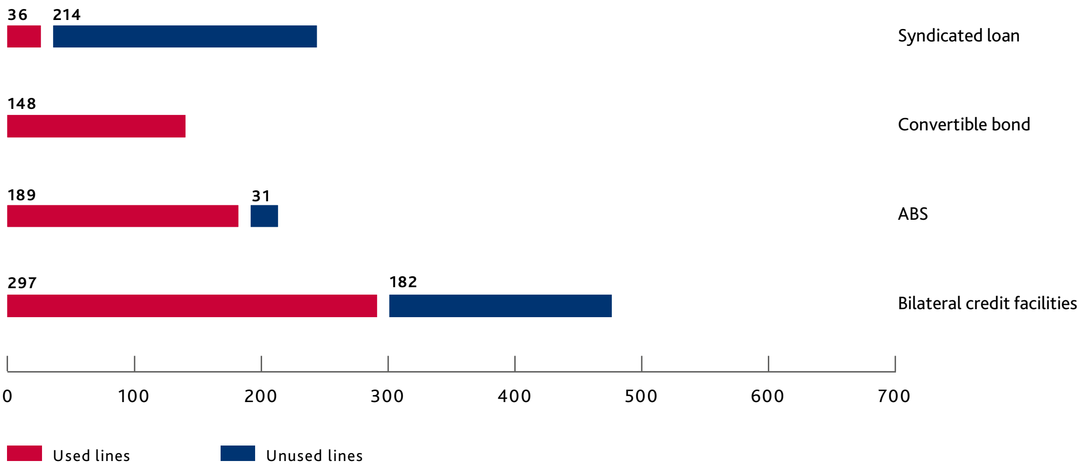
Due to the exceptionally large, €846 million price-driven increase in working capital over the course of 2021, substantial financial resources were tied up as of the fourth quarter. The funding of our pension obligations therefore took place using temporary drawings on our main financing instruments.

Financial headroom remains ample at €1.1 billion

FINANCIAL HEADROOM AND NET FINANCIAL DEBT

Klöckner & Co maintains credit facilities, excluding lease liabilities, totaling approximately €1.1 billion. As shown in the following table, drawings on these facilities totaled only around €0.7 billion as of December 31, 2021.

FINANCIAL VOLUME
(€ million)



December 31, 2021

LEASING

Financial liabilities include lease liabilities in the amount of €156 million (2020: €180 million).

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

NET FINANCIAL DEBT

			Variance			
(€ million)	**December 31, 2021**	December 31, 2020	Total	Currency effects	Net of currency effects	
Net financial debt	762	351	411	20	391	n.a.
Gearing (Net financial debt / shareholders' equity*))	42%	34%	8%p			
Leverage (Net financial debt / EBITDA before material special effects)	0.9x	3.2x	– 2.3			

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

Gearing 42%
Leverage 0.9x

Gearing was 42% as of the fiscal year-end, well within the 165% limit under the syndicated loan and the European ABS program. Leverage improved from 3.2x to 0.9x due to the strong increase in EBITDA.

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

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

CASH FLOW ANALYSIS

The consolidated statement of cash flows shows the sources and uses of cash flows during the fiscal year. The full consolidated statement of cash flows is presented on page 176 as part of the consolidated financial statements. Cash and cash equivalents reported in the consolidated statement of cash flows correspond to cash and cash equivalents shown in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

(€ million)	2021	2020	Variance	
Cash flow from operating activities	– 306	161	– 467	n.a.
Cash flow from investing activities	– 60	–62	2	3.4%
Free Cash flow	**– 366**	**99**	**– 465**	**n.a.**
Cash flow from financing activities	249	– 104	353	n.a.

Negative cash flow from operating activities due to funding of pension obligations and price-driven increase in inventories

Due to the price-driven increase in net working capital throughout the fiscal year and the funding of pension obligations in the fourth quarter (€243 million), cash flow from operating activities was negative at €– 306 million.

Cash flow from investing activities showed a net cash outflow in fiscal year 2021 of €60 million (2020: cash outflow of €62 million). Proceeds of €32 million were generated from the disposal of property, plant and equipment and financial assets in the year under review. Payments for intangible assets, property, plant and equipment totaled €85 million (2020: €76 million).

Capital expenditure by segment was as follows:

(€ million)	2021	2020
Kloeckner Metals US	28	18
Kloeckner Metals EU	17	17
Kloeckner Metals Non-EU	39	39
Holding and other group companies	9	7
Klöckner & Co-Group	**93**	**81**

Accordingly, free cash flow came to a negative €366 million, compared with a positive €99 million in the prior year.

Cash flow from financing activities was €249 million (2020: negative €104 million) and includes cash outflows of €47 million (2020: €46 million) in repayments of lease liabilities and €309 million in net new borrowing of other financial liabilities (2020: €– 76 million net repayment of other financial liabilities). Furthermore, cash flow from financing activities also includes €– 11 million in payments relating to extensions and settlements of currency hedges as part of the Group headquarters financing arrangements (2020: receipts of €18 million).

FINANCIAL POSITION AND BALANCE SHEET STRUCTURE

Consolidated balance sheet			Variance			
(€ million)	December 31, 2021	December 31, 2020	Total	Currency effects	Net of currency effects	
Non-current assets	1,099	932	167	45	122	13.1%
Current assets						
Inventories	1,716	856	860	58	802	93.8%
Trade receivables*)	941	586	355	37	318	54.3%
Other current assets	64	66	– 1	– 8	7	11.5%
Liquid funds	58	173	– 115	2	– 117	– 67.9%
Total assets	**3,878**	**2,613**	**1,265**	**134**	**1,131**	**43.3%**
Equity	1,827	1,043	784	66	718	68.8%
Non-current liabilities						
Financial liabilities	556	334	222	20	202	60.5%
Provisions for pensions	50	288	– 238	3	– 241	– 83.7%
Other non–current liabilities	81	61	19	3	16	26.3%
Current liabilities						
Financial liabilities	261	187	74	2	72	38.3%
Trade payables**)	844	475	369	32	337	70.9%
Other current liabilities	258	225	33	7	27	11.8%
Total equity and liabilities	**3,878**	**2,613**	**1,265**	**134**	**1,131**	**43.3%**

*) including contract assets and supplier bonus receivables.
**) including contract liabilities and advance payments received

Total assets at €3.9 billion, 43.3% up on the prior year on a currency-adjusted basis.

Total assets were €3.9 billion as of December 31, 2021, marking a considerable 48.4% increase on the prior fiscal year-end (2020: €2.6 billion). It should be taken into account in the analysis that the change in balance sheet items includes currency translation effects relating to our international subsidiaries – for the most part our US activities. Adjusted for currency translation, total assets were 43.3% up on the prior-year figure. Non-current assets, at €1,099 million, were above the level of the prior year (€932 million). While property, plant and equipment and intangible assets, at €5 million, were only slightly above prior year, other non-current assets increased by €163 million.

Additions as a result of capital expenditure on property, plant and equipment (€78 million) and additions from new and renewed leases (€22 million) were offset by depreciation and amortization in the amount of €100 million and disposals in the amount of €12 million. Conversely, intangible assets went down from €109 million to €97 million, mostly due to amortization.

The increase in other non-current assets is mainly due to an increase in the surplus of plan assets over pension obligations (€124 million) in the Swiss pension plan and to an increase in deferred tax assets from €8 million to €36 million as a result of improved scope for utilizing loss carryforwards in the German tax group.

As a result of the implemented optimization and restructuring measures and of the significantly improved market environment, the carrying amounts of most cash-generating units were fully matched by their value in use as defined in IAS 36. In the United Kingdom and in steel distribution in the Netherlands, however, the business environment continues to be challenging and the carrying amounts there are not matched by the corresponding values in use as defined in IAS 36 (in the prior year, this was the case in the United Kingdom, in France and in the steel distribution business and in the Netherlands and Germany). Detailed information on this is provided in Note 16 ("Intangible assets and property, plant and equipment").

Net working capital changed as follows:

NET WORKING CAPITAL

(€ million)	December 31, 2021	December 31, 2020	Variance Total	Variance Currency effects	Variance Net of currency effects	
Inventories	1,716	856	860	58	802	93.8%
Trade receivables*)	941	586	355	37	318	54.1%
Trade payables	– 844	– 475	– 369	– 32	– 337	– 70.9%
Net working capital	**1,813**	**967**	**846**	**63**	**783**	**80.9%**

*) including contract assets and supplier bonus receivables.

**) including contract liabilities and advance payments received

Net working capital was €1,813 million as of December 31, 2021, compared with €967 million a year earlier. On a currency-adjusted basis, there was an increase by €783 million or 81%. This is mainly due to the significantly higher price level compared to the prior year.

Cash and cash equivalents, at €58 million, were down on their prior-year level of €173 million.

Equity increased from €1,043 million to €1,827 million, mainly due to the exceptionally high net income (€629 million) and the translation of the financial statements of foreign subsidiaries (€65 million).

The equity ratio, at 47% (2020: 40%) was consequently well above the level seen before the outbreak of the COVID-19 pandemic.

Solid equity ratio of 47%

The excess of equity and non-current liabilities over non-current assets amounted to €1,415 million, compared with €794 million in 2020.

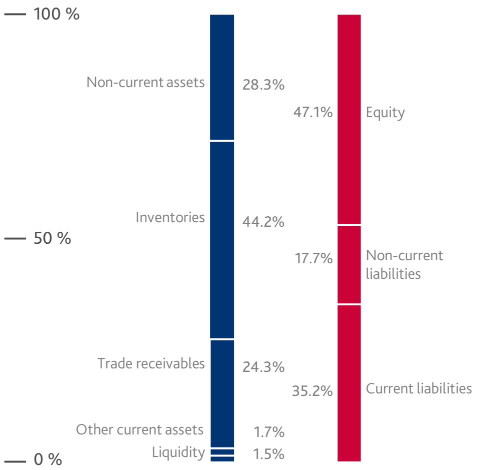
Financial liabilities up on prior year

Due to the increase in net working capital, financial liabilities, at €817 million, were considerably higher than the prior-year figure of €521 million. They include €296 million in bilateral facilities, €189 million in drawings under the ABS program, €142 million for the debt component of the convertible bond issue and €34 million in drawings on the sydicated loan. The remaining amount of €156 million relates to lease liabilities.

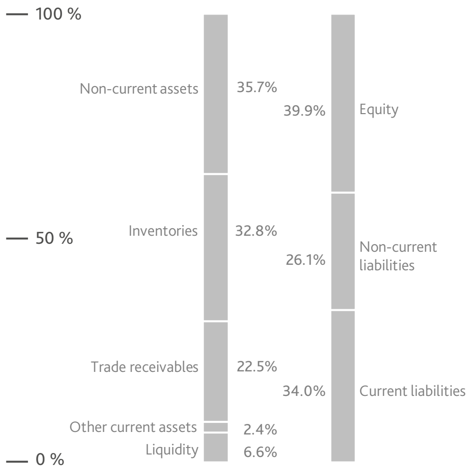
Improvement in balance sheet structure with pension obligations now fully funded

The funding of pension obligations in Germany and the United Kingdom with a €243 million payment into trust funds resulted in a considerable reduction in pension provisions by a total of €238 million from €288 million in the prior year to €50 million.

BALANCE SHEET TOTAL 2021: 3,878 *(€ million)*



BALANCE SHEET TOTAL 2020: 2,613 *(€ million)*



2.7 Overall assessment of the business situation

Margin-over-volume strategy combined with strong upward price dynamic as a result of pandemic-related supply shortages led to improvement in gross profit

The Klöckner & Co Group's operating income (EBITDA) showed an exceptionally strong increase in the 2021 reporting year despite the ongoing COVID-19 pandemic. At the same time as a pandemic-related demand recovery, restricted material availability on the steel market led to a strong upward price dynamic with an exceptionally positive trend in selling prices on the basis of a smaller increase in inventory prices. In this dynamic environment, with the support of a resolute margin-over-volume strategy in conjunction with disciplined inventory management, gross profit increased considerably on the same level of shipments as in the prior year.

As a result of the long-term improvements in cost structure from the Surtsey project and the consequent decrease in OPEX, together with positive one-time items from disposal proceeds on the closure and sale of branches, it was possible to generate the best operating income since the IPO in 2006.

Negative cash flow due to price-related increase in net working capital

Cash flow from operating activities was negative due to the mainly price-driven increase in net working capital and to the cash outflows for the funding of pension obligations. However, these measure will make for a lasting improvement in cash flow from operating activities in future periods.

Solid finances and financial position

Our finances remain very stable, including during the COVID-19 pandemic. Financing for the Group continues to be based on a widely diversified portfolio of funding instruments. We were able to maintain our large financial headroom in the fiscal year by extending financing arrangements ahead of term. The equity ratio remains very solid at approximately 47% as of the year-end.

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

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

As the holding company, Klöckner & Co SE is in charge of operating management of the Klöckner & Co Group and coordinates the Group's central financing. The financial statements are prepared in euros. There may be discrepancies relative to the unrounded figures.

BALANCE SHEET OF KLÖCKNER & CO SE (CONDENSED)

(€ million)	December 31, 2021	December 31, 2020	Variance	
Intangible assets and property, plant & equipment	2	2	–	0
Non-current investments	1,085	1,178	– 93	– 7.9%
Fixed assets	**1,086**	**1,180**	**– 93**	**– 7.9%**
Receivables from affiliated companies	455	126	329	n.a.
Other receivables	2	3	– 1	-
Cash and cash equivalents	3	88	– 85	– 96.7%
Current assets	**460**	**217**	**243**	**n.a.**
Plan asset	21	-	21	-
Prepaid expenses	2	4	– 2	– 40.4%
Total assets	**1,570**	**1,401**	**169**	**12.1%**
Equity	**1,281**	**1,093**	**188**	**17.2%**
Provisions for pensions and similar obligations	-	95	– 95	– 100.0%
Other provisions	18	12	6	55.3%
Bonds	148	148	-	-
Liabilities to affiliated companies	77	50	27	54.3%
Liabilities to banks	36	-	36	n.a.
Other current liabilities	10	3	7	n.a.
Total equity and liabilities	**1,570**	**1,401**	**169**	**12.1%**

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

Financial position reflects holding company status

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

The decrease in financial assets mostly relates to the repayment of the USD200 million (€172 million) loan to Kloeckner Metals Corporation, Wilmington, Delaware, United States of America.

A €53 million capital increase was carried out to strengthen the equity base of Kloeckner Metals UK Holdings Limited, Leeds, United Kingdom. In addition, a past impairment loss on the carrying amount of the investment in Kloeckner Metals France Holding S.A.S., Aubervilliers, France was reversed in the amount of €32 million. A €9.5 million capital increase was also carried out at XOM Materials GmbH, Berlin, Germany. An impairment loss was recognized in the full amount of the carrying amount of the investment (€34.7 million).

In December 2021, Klöckner & Co SE acquired the shares in Kloeckner Metals Brasil Ltda., São Paulo, Brazil from Kloeckner Netherlands Holding B.V., Amsterdam, Netherlands for a purchase price of €11 million.

Receivables from affiliated companies include €158 million (2020: €16 million) in receivables under profit transfer agreements with subsidiaries and €48 million in rights to dividends.

In light of our strong earnings in 2021, we used funding in the amount of €122 million in December 2021 to fund our pension obligations. As a result, the pension obligations are fully funded under a contractual trust arrangement (CTA). As of the reporting date, there was a pension plan surplus in the amount of €21 million.

Klöckner & Co SE's equity ratio was 82% as of December 31, 2021 (2020: 78%).

Solid equity ratio maintained at 82%

INCOME STATEMENT OF KLÖCKNER & CO SE (CONDENSED)

(€ million)	2021	2020	Variance	
Sales	43	14	29	n.a.
Other income	34	59	– 25	– 42.4%
Cost of purchased services	– 11	– 9	– 2	– 22.7%
Personnel expenses	– 33	– 22	– 11	– 52.2%
Depreciation and amortization	– 1	– 1	-	-
Other operating expenses	– 17	– 13	– 4	– 28.9%
Impairments of investments	– 35	– 41	6	15.3%
Income from investments	234	6	228	n.a.
Interest income, net	– 2	1	– 3	n.a.
Result from ordinary activities	**212**	**– 6**	**218**	**n.a.**
Taxes	– 24	-	– 24	n.a.
Net income/loss	**188**	**– 6**	**194**	**n.a.**
Withdrawals from capital reserves	-	6	– 6	n.a.
Unappproppriated profits	**188**	**-**	**188**	**n.a.**

The increase in sales for 2021 relates to leased right-of-use assets.

The decrease in other operating income is mainly due to lower reversals of impairment losses. Past impairment losses on the carrying amount of the investment in Kloeckner Metals France Holding S.A.S., Aubervilliers, France were reversed in the amount of €32 million in fiscal year 2021. Impairment losses were reversed in the prior year on the carrying amount of the investment in Klöckner & Co Deutschland GmbH in the amount of €33 million and on the carrying amount of Klöckner Netherlands Holding B.V., Amsterdam, Netherlands in the amount of €21 million.

The increase in personnel expenses by €11 million to €33 million mainly relates to a €6 million rise in retirement benefit cost.

Other operating expenses went up only slightly to €17 million (2020: €13 million).

Impairment losses totaling €35 million (2020: €41 million) were recognized in the reporting year on the carrying amount of the investment in XOM Materials GmbH, Berlin, Germany.

Investment income at Klöckner & Co SE consists of profit distributions and profit transfers from subsidiaries. Income from profit transfer agreements mainly related to Becker Besitz GmbH, Duisburg, Becker Stahl-Service GmbH, Duisburg, Klöckner Shared Services GmbH, Duisburg, kloeckner.v GmbH, Berlin and Klöckner & Co Deutschland GmbH, Duisburg. The dividend income related to Debrunner Koenig Holding AG, St. Gallen, Switzerland.

Considerable increase in earnings due to exceptional income from investments

As a holding company, the earnings performance of Klöckner & Co SE is materially determined by the performance and dividend policies of its holdings. As a result of the increase in earnings due to the price trend on the steel market, Klöckner & Co SE generated considerably higher income from profit transfer agreements in fiscal year 2021 than planned.

The outcome was net income in 2021 of €188 million (2020: net loss of €6 million).

In light of the potential for distribution of reinvested profits at subsidiaries and the profit transfer agreements we have in place, we expect to generate positive net income in the upper double-digit million euro range in 2022.

Dividend proposal: €1.00 per share due to the record earnings in fiscal year 2021

Due to the considerable increase in net income in 2021, the Management Board and Supervisory Board will propose to the Annual General Meeting that a dividend be distributed for fiscal year 2021 in the exceptional amount of €1.00 per share.

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

4. Other disclosures

4.1 Dependency report

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

In fiscal year 2021, Klöckner & Co SE was a dependent company of SWOCTEM GmbH, Haiger, within the meaning of Section 312 of the German Stock Corporation Act. Pursuant to Section 312 (1) of the German Stock Corporation Act, the Management Board of Klöckner & Co SE has therefore prepared a report on relations with affiliated companies, which contains the following concluding statement: "We declare that with regard to the transactions and measures listed in the report on relations with affiliated companies for the period January 1 to December 31, 2021, based on the circumstances known to us when the transactions were carried out or measures were taken or omitted, the Company received appropriate compensation in each transaction. Insofar as the Company incurred any detriment, it was granted an adequate legal claim in its favor by way of compensation before the end of fiscal year 2021. The Company did not incur any detriment as a result of measures taken or omitted."

4.2 Takeover disclosures

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

COMPOSITION OF SUBSCRIBED CAPITAL

As of December 31, 2021, Klöckner & Co SE's subscribed capital totaled €249,375,000, divided into 99,750,000 registered, no-par-value shares. All shares carry the same rights and obligations. Each share has one vote.

RESTRICTIONS ON VOTING RIGHTS AND THE TRANSFER OF SHARES

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

INTERESTS IN SHARE CAPITAL EXCEEDING 10% OF VOTING RIGHTS

As of December 31, 2021, the following direct or indirect interests in the share capital of Klöckner & Co SE exceeding 10% of the voting rights were reported to the Company in accordance with the German Securities Trading Act (WpHG): SWOCTEM GmbH (Prof. Dr. Friedhelm Loh), Haiger, 25.25% as of February 2, 2016.

SHARES WITH SPECIAL CONTROL RIGHTS

No shares with special control rights exist.

EXERCISE OF VOTING RIGHTS BY EMPLOYEES OWNING SHARES IN THE COMPANY

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

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

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

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

POWERS OF THE MANAGEMENT BOARD TO ISSUE AND REPURCHASE SHARES

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

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

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

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

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

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

If a person, or persons acting in concert within the meaning of Section 2 (5) of the Securities Acquisition and Takeover Act (WpÜG), directly or indirectly acquire(s) more than 50% of the voting rights in the Company, any of the individual lenders under the currently €250 million syndicated revolving credit facility may demand repayment of any outstanding loan it has disbursed. The European ABS program (current volume: €220 million) provides for a right of termination in the same event.

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

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

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

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

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

The contracts with members of the Company's Management Board do not provide for any special right of termination for the event of a takeover offer or change of control ("change-of-control" provision).

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

4.3 Dividend planning

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

The Management Board and Supervisory Board propose the distribution from Klöckner & Co SE's unappropriated profits for fiscal year 2021 of an amount of €99.750 thousand to shareholders as dividend and the transfer of the remaining €88,406 thousand of the unappropriated profits to other revenue reserves. At 99,750,000 eligible no-par-value shares, the dividend proposal corresponds to a dividend of €1.00 per share.

5. Macroeconomic outlook including key opportunities and risks

5.1 Expected global economic growth

Expected global economic growth in 2022: 4.4%

The International Monetary Fund (IMF) forecasts 4.4% economic growth in 2022. As a result, the global growth momentum will be maintained. Uncertainty about the economic outlook has declined overall and the recovery is expected to continue in the year ahead. Further progress is also anticipated regarding the launch of effective vaccines, global vaccination coverage and new medical treatments. At the same time, the potential spread of new variants continues to make the forward path of the pandemic highly uncertain. Conversely, additional stimulus and infrastructure programs in various countries will likely have a positive impact on economic growth. A recurring need for containment measures, further supply chain disruptions and potentially worsening labor shortages could slow the global recovery. Other risks include trade disputes, geopolitical conflicts such as that between Russia and Ukraine, and higher inflation than previously expected.

On IMF estimates, the eurozone economy is forecast to grow by 3.9% in 2022. Restrictions affecting international supply chains are expected to ease increasingly over the course of the year. That is likely to deliver strong growth stimulus above all in the key Europe-wide automotive sector and its upstream and downstream industries. The eurozone construction sector is set to be supported by additional EU stimulus measures such as the Next Generation EU fund. Overall, the situation regarding the pandemic is expected to improve with increasing vaccination coverage. However, there may still be regional restrictions – especially for contact-intensive activities primarily in the services sector.

For the USA, the IMF expects that GDP will grow this year by 4.0%. The economy is also expected to benefit from a gradual easing of supply shortages and from stimulus programs. Industrial production capacity expansion and inventory restocking should additionally support growth in 2022. The labor market recovery is set to continue. However, transportation bottlenecks and a further rise in inflation could continue to hold back the US economy.

According to the IMF, the Chinese economy will grow by about 4.8% in 2022. Growth is largely expected to be driven by strong exports and, in particular, ongoing robust foreign demand for consumer goods. Any fiscal incentives ought to further support business enterprises. Private consumption, on the other hand, is likely to recover more slowly than expected. A worsening of the pandemic in combination with the attendant strict pandemic policies in China could slow industrial output growth and hold back the economy. Economic growth could also be reduced by the looming Chinese real estate crisis, which would likely depress demand, in particular for intermediate and capital goods.

Expected development of GDP (in percent)	2022
Europe*)	**3.9**
Germany	3.8
United Kingdom	4.7
France	3.5
Belgium	3.0
Netherlands	3.3
Switzerland	2.9
China	4.8
United States	**4.0**
Brazil	0.3

*) Eurozone.
Source: IMF, Bloomberg.

Expected steel sector trend

The World Steel Association forecasts around 2.2% year-on-year growth in global steel demand in 2022 to 1,896.4 million tons. Growth is expected to total 5.5% in the European Union plus the United Kingdom, 5.4% in the North American Free Trade Area (USMCA) and 0.9% in South and Central America. For China, on the other hand, the World Steel Association expects steel demand to stagnate at its current level.

5.2 Expected trend in our core customer sectors

Construction industry
Oxford Economics estimates that the Eurozone construction industry will grow in 2022, with an increase of around 3%. In particular, the Next Generation EU fund is expected to set in motion new construction projects and building refurbishments. However, the industry's development in the eurozone depends on the further course of the COVID-19 pandemic and the availability of construction materials as supply shortages ease. Growth of around 6% is projected for the US construction industry in 2022. A major contributor to the robust growth is identified as the civil engineering sector, which is expected to benefit considerably from the recently adopted US infrastructure program. Strong growth is also forecast for private residential construction.

Machinery and mechanical engineering
Machinery and mechanical engineering output in the eurozone is expected to grow substantially, with an increase of around 5% in 2022. The recovery in new orders, especially for machinery and equipment, ought to have a positive impact on output. Nevertheless, it is estimated that problems within the sector's complex supply chains will persist for the time being in 2022. Growth of around 3% year-on-year is projected for the USA. Investment spending is set to increase as a result of supportive policy measures and favorable conditions for investment. Production that has been put off due to supply shortages can be expected to be made good in the coming year. A more rapid elimination of the shortages would help growth.

Automotive industry
According to estimates from the German Association of the Automotive Industry (VDA), the European automotive industry will grow by about 5% in 2022. Orders in Europe are expected to rise significantly due to strong demand. The semiconductor shortage is expected to persist for the time being in the first half of the year. Nevertheless, automotive output is expected to see significant catch-up effects over the course of the year, partly supported by manufacturers launching new electric vehicle models. Unit sales of automobiles in Germany are expected to grow by about 7%. The VDA also expects German automotive production to grow significantly by around 13%. Growth of about 2% is expected for the automotive market in the USA and China.

5.3 Risks and opportunities

In Europe especially, the main macroeconomic risk continues to be uncertainty about the further course of the COVID-19 pandemic, particularly with regard to new mutations. As a consequence of the pandemic and the unexpectedly rapid return to growth, supply shortages and rising inflation due to rising commodity prices – notably oil and gas – are acting as a brake on growth. The currently dominant omicron variant is a potential threat to critical infrastructure as a result of absences due to illness and quarantine rules. Infection rates are rising sharply in some countries despite high vaccination coverage, and local, regional or even national lockdowns are possible as a result – as in Austria in the final quarter of 2021 and in the Netherlands in the first quarter of 2022. Looking further ahead, prolonged inflation remains a possibility, driven by labor market shortages and attendant demands for higher wages, price increases on other production factors and rising climate costs. On the positive side, despite the spread of the omicron variant, construction sites have so far been able to remain open and industrial production has remained on track. New orders also remain very strong in most sectors and the economic recovery continues. World trade has been impacted mainly by supply shortages, for example due to obstructions at major ports and shortages of components such as semiconductors. On the other hand, pent-up consumer demand – among other things for cars – following the pandemic means that the supply shortages leave major potential for growth as the impacts of the pandemic further subside.

The trade dispute between the USA and China continues unabated under the new US administration and could further intensify, even though at diplomatic level the dispute has recently been conducted in significantly more objective terms. Geopolitical risks also remain on the agenda, the main focus at present being on a further escalation of the conflict between Ukraine and Russia. Developments in the Middle East likewise continue to hold risk potential. A prolonged crisis in the Middle East could drive up the oil price and slow down global economic growth. In the EU, the upcoming April presidential election in France and the possibility of a change of government in Italy harbor the risk of greater political instability.

There are also opportunities, however, such as increasing cooperation between the USA, Europe and other western industrialized nations. A revival of US cooperation with its allies under the new Biden administration is already in evidence and could become significantly broader going forward.

The expectation for the global economy that pre-crisis growth levels would be regained by mid-2021 was not realized in all sectors. In addition, economic growth directly before the onset of the pandemic was at its lowest level since the financial crisis. Despite much capacity being shut down due to the pandemic, the unexpectedly strong steel demand in Europe and the USA in the second half of 2020 remained in place in 2021. With capacity gradually coming back on stream, however, the supply side has generally normalized with the exception of aluminum and stainless steel. At the same time, additional capacity has increasingly become available in the form of new steel mills in the USA. The severe temporary supply shortages stabilized the high price level for a long time during the reporting year, with the risk of a significant correction. However, the expectation of strong economic growth in China, potential growth impetus from large stimulus packages, climate measures and a successful vaccination strategy also represent an opportunity for the added capacity to be partly offset by further growth in steel demand. An example is the adoption of the massive, USD1.9 trillion stimulus package in the USA.

Risk policy

Optimizing the Group's risk position

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

Risk and opportunity management is an integral part of our management process. Our Risk Management System (RMS) is supplemented by our Group-wide Internal Control System (ICS) and our Compliance Management System (CMS; see 7 Corporate Governance Statement – COMPLIANCE on page 100). The RMS, ICS and CMS, supplemented by data protection and information security, form the core of Governance, Risk & Compliance (GRC). Regular, intensive exchange takes place there to create synergies wherever possible by close coordination and collaboration.

Risk management system

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

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

Risk management organization and responsibilities

SUPERVISORY BOARD

Monitoring of effectiveness of Risk Management System
Assessment of risk reporting

AUDIT COMMITTEE

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

MANAGEMENT BOARD

Responsible for appropriate group risk management

RISK COMMITTEE

Supervision and consulting

CORPORATE RISK MANAGEMENT

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

RISK MANAGEMENT FUNCTIONS

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

The organization of our RMS is geared toward promoting risk awareness throughout the Group and ensuring the effectiveness and efficiency of the RMS. In addition, to reinforce the understanding of risk and of our risk culture, online training on the fundamentals of risk management was rolled out in the Group's main languages between the end of 2020 and Q1 2021. This training is compulsory for all senior managerial staff and employees directly involved in the risk management process.

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

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

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

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

RELEVANCE SCALE

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

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

3. In line with the requirements of the revised IDW Auditing Standard 340, we now assess both gross risks (before measures) and net risks (after measures) for potential impact, based on the levels in the relevance scales, and for probability of occurrence. On the basis of the resulting expected value for relevant net risks, it is possibly, firstly, to prioritize risks and, secondly, to match up risk exposure – taking into account interactions and correlations – against the Group's risk-bearing capacity.
4. Risk management and control of "significant," "serious" or "critical" risks is the responsibility of the risk owners. Documentation is monitored both by risk managers and by the Corporate Risk Management Department at Group level.
5. The Group's risk-bearing capacity is determined – likewise based on the requirements of the revised IDW Auditing Standard 340 – twice a year and additionally as required in close consultation with Corporate Treasury and Corporate Controlling. The purpose of this process is to determine the amount of liquidity available to the Group and the availability of equity capital to cover the risk positions incurred.
6. Twice annually, in parallel with compilation of the risk report, these processes are monitored internally by the Group-wide Risk Committee. The committee comprises representatives from the corporate departments of Klöckner & Co SE as well as the operating units and is headed by the CFO. In addition, the Supervisory Board as governing body monitors the RMS and examines risk reporting.

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

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

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

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

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

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

FINANCIAL REPORTING RISKS

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

CONTROL ACTIVITIES TO ENSURE COMPLIANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

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

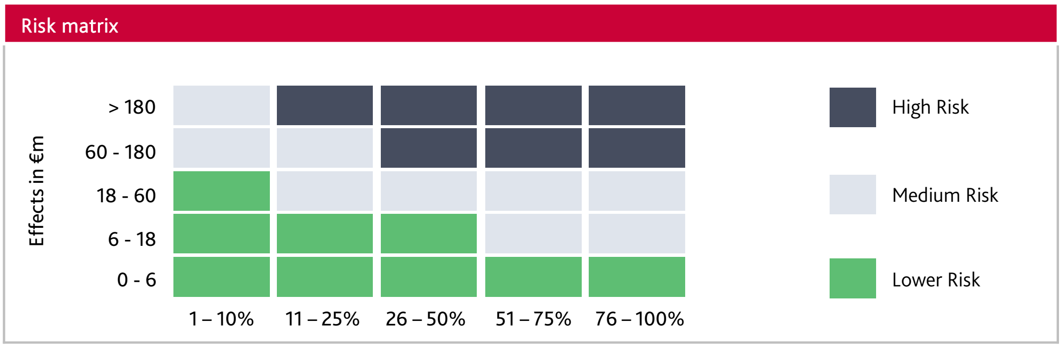
- The ICS in relation to the financial reporting process, which is continuously enhanced using standardized risk control matrices including a regular self-assessment process and independent review, and also includes the financial reporting processes of external service providers.
- Control mechanisms,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

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

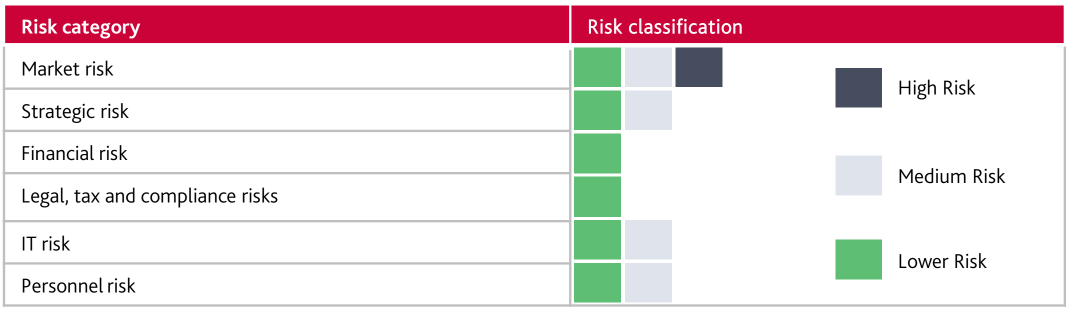
Presentation of individual risks

As part of the RMS, we have identified material risks, classified them by risk category and assessed their relevance. For potential going concern risks of relevance level 3 (significant), 4 (serious) or 5 (critical), the risk owners have determined the gross risk before risk-control measures and the net risk after such measures in terms of their potential impact and probability of occurrence. In the following, we show the net assessment in a risk matrix with five ranges for each of the two risk dimensions.

Risk matrix



Risk classification by risk category



Our primary risks are seen to come under the category of market risk. These types of risk are described in more detail below. We subsequently discuss the most significant risks in all other risk categories.

Market risk
Price risk is currently by far the most dominant risk. Steel prices in Europe reached an all-time high early in the third quarter and dropped significantly toward the year-end. In the USA, steel prices likewise marked an all-time high at the end of the third quarter and thereafter fell sharply to the end of the year. With prices still at historically high levels, a high risk of negative windfall effects persists if customer demand does not pick up significantly in the first half of 2022.

We sell most of our products at spot market prices. The time lag of up to several months between the setting of procurement prices, stockholding and the point at which we invoice sales means that we are constantly exposed to margin and valuation risk. Excessive inventory values can have a negative windfall effect on current earnings when selling prices are falling. Earnings can also be impacted if it is necessary to adjust the carrying amount of inventories to the detriment of earnings when preparing the financial statements. Due to the ongoing high level of surplus capacity in steel production worldwide, there is a constant threat of price declines and the negative impact on earnings performance that would inevitably follow. Interdependencies between price trends in different markets around the world could be temporarily affected by anti-dumping duties and further government intervention such as the punitive tariffs on steel and aluminum imposed by the US administration and the safeguard measures originally applied in response by the European Commission. However, the US and EU agreed in October to replace the US punitive tariffs on EU imports and all EU countermeasures with tariff-rate quotas commencing January 1, 2022.

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

An intermediate market risk is the restricted availability of products from steel and aluminum producers. Availability of various product groups, and especially aluminum, is limited by disruptions in the global supply chain due to logistical bottlenecks, trade restrictions, the energy crisis and, in particular, dependency on a number of regions such as China and Russia for certain crude and semifinished products. We counter this with measures such as holding buffer stocks to accommodate inbound material as part of all negotiations with suppliers. In addition, we are developing alternative supply routes, such as importing from Asia via a procurement office in China. We also secure certain guaranteed quantity allocations from our key suppliers and backup suppliers. Furthermore, we have established intensive monitoring of inventories and open orders in order to manage these on the basis of key performance indicators.

For the economy, which represents an intermediate market risk, present risks relate to an economic downturn due to the ongoing pandemic with the current very rapid spread of the omicron variant, including in countries with high vaccination coverage. Even without local, regional or even national lockdowns, the rapid spread of infection and the associated absences due to illness and quarantine measures means that negative impacts on worker productivity, consumer confidence and even the functioning of critical infrastructure could paralyze the economy. If the pandemic continues, it may affect confidence within the economy that such impacts can increasingly be contained, thereby reducing economic growth momentum. Sustained high or even rapidly rising infection rates could lead to an expansion and extension of containment measures.

Moreover, a scenario of even higher, and, above all, prolonged inflation combined with a restrictive monetary policy response could act as a severe and sustained brake on growth. Additional uncertainties exist due to the ongoing trade conflict between the USA and China, as well as with regard to potential effects on Europe, which could negatively impact the development of the economy. The geopolitical situation in the Middle East could also further drive up the oil price and fuel added uncertainty. We counter cyclical risks by having the broadest possible base across a range of customer industries. In addition, we keep a close watch on the development of the general economy and our customer industries in order to infer cyclical and industry risks from leading indicators at an early stage and to respond with countermeasures.

Strategic risk

An intermediate strategic risk comprises non-attainment of the strategic goals and performance indicators we target in the new “Klöckner & Co 2025: Leveraging Strengths” strategy in relation to metrics such as sales, gross profit margin or gross profit. A variance analysis of historical data shows considerable deviation due to highly unpredictable market volatilities. Uncertainties resulting from current developments, most of all due to the pandemic and its potential impacts on supply and demand, mean that there continues to be little forward visibility.

As part of our activities to ensure that we achieve our strategic goals, we have now largely implemented the cost-saving measures in the Surtsey project. In the short term, the recent price trend has meant that we indeed significantly exceeded our budget targets. However, developments beyond 2021 are highly uncertain. Prices have already peaked. Implementation of the remaining Surtsey measures and additional global optimization initiatives under the “Klöckner & Co 2025: Leveraging Strengths” strategy in sales, logistics, processing services, procurement and administration, however, are calculated to lay a long-term basis for profitable growth in the future and for the attainment of our strategic goals. In addition, the substantial reduction of pension provisions in Germany and the United Kingdom means that the corresponding expenses have also been significantly reduced, thus contributing to a progressively declining cost base.

The high degree to which net income is dependent on earnings from individual operating segments, and in particular our US and Swiss business units and Becker Stahl-Service, is likewise an intermediate strategic risk. This dependency was especially evident during the crisis, when these units – with the exception of Switzerland – also generated significantly weaker earnings. If one or more of these three business units fails to perform as expected, that will have a severe impact on Group earnings. This is potentially a risk if the trend on the steel markets returns to normal. We therefore aim to reduce this risk in the medium term by more closely integrating our traditional steel distribution activities in Europe in order to unlock synergies, save costs and enable faster, more efficient implementation of our strategy. All major Group units contributed positively to earnings in 2021.

Furthermore, [our leading role in digitalizing the steel distribution value chain in particular, and in the medium term also our leading role in supplying customers with "green" steel, is expected to deliver enhanced market differentiation and hence competitive advantages], thereby reducing our dependence. In this regard, we believe that the further development of the Kloeckner Assistant and XOM eProcurement in particular holds great potential for reaping additional efficiency gains in sales and procurement and securing a cost edge to set us apart from the competition. We will also further accelerate our digital transformation as a key element of our new strategy. Our ongoing investment in higher value-added products and services continues to make an important contribution to improving earnings.

A further intermediate strategic risk is the high volatility of energy prices, as the main current driver of inflation, together with general cost inflation in areas such as wage costs. The growing relevance of environmental and sustainability issues, such as carbon pricing, could put additional upward pressure on energy prices in the long term. In addition, higher road tolls and other levies together with higher labor costs could also significantly increase logistics costs for steel distribution and make it necessary to decentralize stockyards. We are addressing this by continuing to roll out our sustainability strategy. This includes initiatives such as the tracking and monitoring of carbon emissions and actions to optimize the vehicle fleet and energy consumption in general. Furthermore, we are entering into alliances with external full-service logistics providers, optimizing our own logistics and, where possible and appropriate, providing our Company fleets with drivers of their own. In addition, Klöckner & Co has committed to ambitious climate targets and aims for net zero by 2040 (Scope 1, Scope 2 and directly controllable Scope 3 emissions).

By political risks, we mainly mean the growing trend toward unilateralism and nationalism, resulting among other things in "America first" and "buy American" policies as well as leading to global trade conflicts and political decisions such as Brexit. The currently growing tensions between the USA and China could further intensify going forward and potentially also have an impact on Europe. On the other hand, the lifting of and partial exemptions from existing trade barriers, such as Section 232 in the US or safeguard measures in the EU, could have a significant impact on the market equilibrium once the current temporary material shortage is overcome. At the end of October, the US administration announced that it would largely repeal Section 232 for EU imports to the USA under certain conditions. The resulting uncertainties regarding economically relevant policy choices could negatively impact the business climate and Klöckner & Co's business decisions in relevant markets. We therefore currently assess political risks as intermediate strategic risks for Klöckner & Co. Political risks can lead to ownership risks, such as with foreign direct investments, transfer risks due to currency restrictions and also operating risks due to breaches of contract. To mitigate these risks, we pursue regional and international diversification while monitoring political events and analyzing their potential impact on Klöckner & Co in order to take preventive action as far as possible.

The customer segments on which the Klöckner & Co Group is dependent are construction, machinery and mechanical engineering, and automotive. In addition, most products are commodity products that are generally available to all competitors. There is also a large proportion of spot orders. This means that the Company is vulnerable to economic upturns and downturns and significantly exposed to event risks such as the risk of a pandemic. We counter the intermediate risk of dependence on the construction industry, the automotive supply business and machinery and mechanical engineering by further diversifying our customer sectors, for example with the energy sector and, in particular, renewable energy, by means of growth initiatives such as customer-focused additions to the portfolio and expansion of our partner network in attractive industries, and by introducing target pricing systems. In addition, we are reducing our exposure to the construction sector and commodity products by expanding the higher-margin products and services business. Finally, we are specifically working to turn spot sales into contract business in order cushion market price and market demand volatility.

Every crisis also presents opportunities, one of which is the opportunity to make attractive acquisitions. Successful acquisitions are important for growth and for increasing enterprise value. Failure to achieve objectives associated with acquisitions therefore constitutes an intermediate strategic risk, in particular for corporate development and performance. In the current market situation, there is a risk of paying too much for an acquisition target. Depending on the size of the target and its relevance to the success of our business, an acquisition in such a market may make it significantly more difficult to achieve our corporate goals. As with all M&A activities, acquisitions are governed by a comprehensive M&A policy. Compliance with this policy is monitored centrally. When selecting acquisition targets, we do not enter into any going concern risk. Our focus is generally on opportunistic, relatively small-scale acquisitions that are earnings-accretive. All acquisitions undergo thorough due diligence prior to purchase. No later than three years after an acquisition, the Corporate Internal Audit Department carries out an evaluation. In an ongoing process, we also identify new risks emerging from past acquisitions so that we can respond quickly and appropriately. Nevertheless, we are unable to rule out negative developments entirely, as the business situation of acquisition targets is generally subject to the same strategic risks as our other activities.

We regard a further financial crisis as a possible but at present low strategic risk. There is a possibility of financial market disruption if monetary and fiscal policy support measures are gradually scaled back from the substantial levels needed during the COVID-19 crisis. Premature tapering of central banks' expansionary monetary policy and of government stimulus packages is only one possible trigger, however. Other possible risks include further escalation of the pandemic, stresses in the banking sector, political risks, other significant changes in monetary policy, sovereign debt-related stress events and a real estate bubble, possibly in China. We address this risk of potential upheaval on the financial and capital markets, and the consequences of any such upheaval for our Company, by maintaining solid balance sheet ratios and a diversified financing portfolio. This is demonstrated by our equity base, which continues to be very solid, and our comparatively low net financial debt in relation to equity. Our available working capital facilities ensure that we are able to finance our operating activities and cover our liquidity requirements. We also had adequate holdings of cash and cash equivalents as of the year-end 2021. These are invested on a short-term basis with the Group's core banks, which have at minimum an investment grade rating. With regard to performance indicators, please see under "Cash flows, financing and liquidity" in the "Economic report" section of the Annual Report.

Financial risk

The immediate availability of financing instruments for Klöckner & Co was assured at all times throughout the reporting year. This was demonstrated by the contractual amendment of the syndicated loan (to January 2025). We had already renewed the European ABS program (until November 2023) and the US ABL facility (until March 2024) at the end of 2020. Nevertheless, the onward course of the pandemic could limit our borrowing options. It could also significantly affect the quality of trade receivables and thus the volume of net working capital financing possible under the ABS program. Similarly, general market developments could reduce the availability of credit insurance for our key suppliers and, at the extreme, limit our ability to place orders. Weak profitability over multiple quarters and a high debt level could lead to a downgrade of the Group's credit ratings, exert pressure on borrowing terms and possibly also covenants, and reduce our financial flexibility. From the present perspective, however, we consider these scenarios to be a low risk.

We have both defined benefit and defined contribution plans within the Group. The risk associated with defined benefit pension obligations corresponds to the expenditure necessary to meet the obligation. Such expenditure is calculated on the basis of actuarial assumptions and also requires the use of estimates. Benefit costs may increase or – in the case of funded plans – additional contributions to fund assets may become necessary due to tighter legal requirements. In the case of funded pension obligations, such as in the USA and the UK, plan assets are exposed to capital market risk. With regard to defined benefit obligations, a falling discount rate relative to the prior year would have a considerable impact on the measurement of our obligations given the low interest rate environment. A potential further reduction in the discount rate would necessitate further additions to pension provisions, with the effect of reducing equity. We therefore monitor interest rate changes and their balance sheet impact so that we can take timely countermeasures as needed. In addition, we regularly commission independent experts to produce asset/liability studies as part of risk analysis and, where necessary, adapt our investment policy accordingly. Furthermore, we took action in 2021 to significantly reduce our pension provisions and the corresponding expenses. To this end, we entered into a contractual trust arrangement (CTA) in Germany and made up a shortfall in plan assets in the United Kingdom. Decisions on the allocation of funds to pension schemes have to be approved by the Group Management Board. New commitments are entered into exclusively on a defined contribution basis so as to reduce the financial risk arising from pension commitments (see the Notes to the Consolidated Financial Statements; Notes to the consolidated statement of financial position: (24) Provisions for pensions and similar obligations. We therefore currently consider the risk from pension obligations to be a low financial risk.

Legal, tax and compliance risks
Steel distribution is a sector in which legal risk generally tends to be lower than in many other sectors. We do not see any high or intermediate risk in this respect at present.

In the area of compliance, we continue to view the risk of antitrust violations as a material risk. A potential risk relates in particular to collusion with competitors – for instance, involving price fixing, market allocation or agreeing on production, procurement or supply quantities. Alongside classroom training, one example of the measures taken to counter this risk is an e-learning tool that is mandatory throughout the Group. Among other things, this provides information on the main points of our Code of Conduct, which is published throughout the Group and on the Internet, and on compliance-relevant Group policies, notably also on antitrust law. Due to the extensive measures that have been implemented, we regard this risk as low overall.

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

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

Personnel risk
As a service provider, Klöckner & Co is highly dependent on the skills and experience of its employees. In the industry and regions in which we operate, competition for highly qualified, motivated and dedicated employees and executives is very strong and has further intensified. The cause is the increasing skills shortage on the labor market, which poses a major personnel risk throughout the Group and could become even more acute. This intermediate risk is made all the more significant by the image problem regarding regular jobs in our industry. However, this applies to a much lesser extent to attractive management positions. In particular, it is becoming increasingly difficult to recruit and retain stockyard workers in the business. Workers' negotiating position has also significantly improved – especially in the USA, but also in various European country organizations. Companies from outside our industry are increasingly aggressive competitors for scarce labor. On top of this, there is an increasing tendency for low-skilled workers no longer to take up regular employment.

Efforts to address these trends include a Group-wide joint initiative to further improve the image of the Klöckner & Co employer brand and to offer a more attractive workplace and career path for low-skilled workers. We also keep a close watch on developments on the labor market, on market trends in wages and salaries and on HR KPIs such as workforce turnover and age structure. This enables us to perform effective benchmarking and to detect and rapidly respond to emerging trends. Other measures include increasing automation in HR and the introduction of a new HR information system to enhance data quality and transparency. We also continue to expand talent management initiatives together with diversity, equality and inclusion programs.

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

Opportunities and opportunity management
Systematic identification, assessment, management and control of opportunities are the responsibility of management at country level and the Management Board on the basis of our new "Klöckner & Co 2025: Leveraging Strengths" strategy. Financing and implementation of the opportunities resulting from our corporate strategy are supported by the corporate departments. The projects that result from these activities are managed together with the holding company, and success is monitored jointly. A secure financing structure, effective procurement and inventory management, optimized sales processes and human resources management that promotes innovation potential provide the basis for leveraging opportunities at Klöckner & Co. Added to these is a high level of digitalization expertise throughout the Group, which has been taken to a new level under the umbrella of the "new" KCI. In the following, only the most significant opportunities currently available to us are described in detail. As our markets are dynamically changing and both our business environment and Klöckner & Co itself consequently continue to evolve, our assessment of opportunities is naturally also subject to change. It is therefore possible that the described opportunities may cease to apply or prove unable to be realized.

Strategic opportunities
Every crisis creates opportunities. To take advantage of these, we launched the Surtsey transformation project immediately after the onset of the pandemic. That project is now largely complete. Surtsey enabled Klöckner & Co to make major strides in its digital transformation and significantly improve its cost structure. This is the foundation we are now building on with our new strategy, "Klöckner & Co 2025: Leveraging Strengths." The aim of this strategy is to position Klöckner & Co as the leading one-stop-shop platform for steel, other materials and processing services in both Europe and the USA by harmonizing our sales and procurement functions, further scaling, smartly integrating selected third parties and expanding our product and service portfolio. In addition to the digital transformation and automation of processes throughout our value chain, this also places a focus of our strategy on sustainable financial performance, reducing our environmental impact and carbon footprint, and leveraging opportunities in connection with sustainable business models. As well as targeting operational excellence, our evolutionary strategy is primarily directed at growth in the customer base and increasing share of wallet. Accordingly, we plan to increasingly harness our assets and our network of selected third-party providers for this purpose and provide complementary products and services on our platform. We believe that these strategic goals will in turn enhance our focus on sustainability and corporate values.

In the course of our restructuring, we have also further optimized our site network and cut costs across the entire organization. These measures have already paid off with a significantly improved earnings position and lower working capital, and also improve our earnings for the long term. With the resulting higher profitability and increased digitalization, we are paving the way for unlocking additional growth potential, including by taking a more active role in ongoing market consolidation should attractive opportunities arise. As part of our strategy, we screen our core markets for opportunistic acquisition opportunities that complement our business model and add value by accelerating growth, expanding our portfolio and increasing market share. Such acquisitions must meet our investment criteria, which require that they add value, be financially prudent and match a certain minimum size. Identifying, acquiring and integrating value-generating businesses creates synergies, enabling us to add to our product and service portfolio, grow our customer base and leverage our assets. Due to high decision-making pressure on market players, such a serious crisis as the current pandemic always presents opportunities to acquire businesses that fit our overall strategy on attractive terms. Consequently, we keep a very watchful eye on market developments and, where appropriate, subject companies with a strategic fit to closer scrutiny, particularly with a view to synergies that add value.

As a further element of the new “Klöckner & Co 2025: Leveraging Strengths”, Klöckner & Co commits to reducing climate-warming emissions and establishing sustainable business models in order to become a pioneer of a sustainable steel industry. In this way, we assume social responsibility while simultaneously exploiting the strategic opportunities presented by decarbonization. We are thus making sustainable solutions an integral part of our business model and building a sustainable range of products and services in order to play an important role in the circular economy of the future. The target set in our sustainability strategy is to reduce directly controllable emissions to net zero by 2040. By directly controllable emissions, we mean Scope 1, Scope 2 and directly controllable Scope 3 emissions. Scope 1 and 2 comprise emissions generated in our own business, such as from shipping products to customers using Company trucks or from consumption of externally sourced electricity. To reduce these emissions, we are transitioning central energy procurement to renewable energy and switching our vehicle fleet to other means of propulsion such as battery power and hydrogen. This will enable Klöckner & Co to save around 92 thousand tons of carbon per year. Measures to reduce Scope 3 emissions – meaning greenhouse gas emissions in the upstream and downstream value chain – include dispensing with domestic flights for business travel and increasing the opportunities for working from home. Among other activities, we have also entered into a partnership with the Swedish start-up H2 Green Steel. This makes Klöckner & Co one of the first distributors to secure access to significant quantities of virtually carbon-free “green” steel. From 2025, Klöckner & Co will be able to source up to 250,000 tons of green steel and incorporate it into the product and service portfolio. In this way, Klöckner & Co is significantly expanding its range of sustainable products and services and can further differentiate from the competition.

We believe that the ongoing digital transformation will be a key enabler in enhancing the transparency and efficiency of previously opaque supply chains. Steel and metal distribution continues to be characterized by large numbers of intermediaries and a lack of transparency, which makes the industry inefficient. We are confident that we can help break down such structures with our platform model by providing our customers with easy, one-stop access to complementary products and services. After focusing on customer interfaces at the start of our digital transformation, digitalization of the end-to-end process from ordering to shipment has now moved to center stage. Step-by-step automation of subprocesses is not only a key competitive advantage, it also moves Klöckner & Co further forward towards becoming a platform enterprise. Such enterprises are characterized by large-scale automation of core processes and scalability of their business model, meaning they are able to grow without major additional financial outlay and hence possess a good basis for long-term profitability. That is what makes them so successful and valuable. As a [pioneer and leader in digitalization] for steel and metal distribution, we have been consistently advancing our digital transformation for some years, with the outcome that the fourth quarter of 2021 saw us generating 46% of sales via fully digital channels. A key factor in this accelerated progress is our Kloeckner Assistant, with which we are increasingly automating sales processes. This AI-driven application was once again further improved in the reporting year and is now able to handle all major processing quote requests. We additionally launched a process analysis. The aim of this analysis is to extend automated processing – which already works for PDF files – to cover text emails. Going forward, this could allow Kloeckner Assistant to automate up to 80% of sales processes. It already handled sales of over €1 billion by automated means in the reporting year. With the launch of the online shop for the steel and metals division of the Debrunner Acifer Group, Switzerland, which is in the Kloeckner Metals Non-EU segment, all significant companies are now integrated into the global Klöckner & Co platform solution. Expanding digital sales will enable us to become faster and more efficient by further reducing manual order processing effort and generating more data for better, data-driven decision-making. This further increases the scalability of our digital business. In procurement, we can quickly and efficiently compare and standardize suppliers’ quotations using the XOM eProcurement tool by merging them into a standard template. This tool is pivotal to the centralization of our European procurement process across the various countries involved. With this suite of digital innovations in the reporting year, the Group once again advanced its transformation with regard to digitalization and automation in the direction of “zero touch”.

With our Kloeckner Assistant and XOM eProcurement applications, we are now automating our core procurement and sales functions. The pandemic has once again demonstrated that we are on the right track with our digitalization strategy. A platform helps eliminate information asymmetries in steel and adjacent industries by digitally connecting all market participants in order to significantly increase efficiency for everyone involved. The goal here is for Klöckner & Co to provide the entire range of products and services via all sales channels. In addition, we plan to achieve further organic growth in higher value-added business with the goal of reducing earnings volatility and raising profitability. This is expected to additionally boost our efforts to digitalize our business model to be more forward-looking, create added value and be less prone to risk. Examples include investing in 3D lasers so that we can continue to provide higher value-added products and services and expand our customer base. Rolling out our 3D laser capacity across Europe helps make efficient use of our network. Alongside a 3D laser center in the UK and several 3D lasers in Germany and the US, we also have 3D laser capacity in France and the Netherlands. We thus successfully occupy a niche in both Europe and the USA.

Overall, the purpose of all these projects and measures is to reap synergies and make our organization leaner so as to secure efficiency improvements. In addition, we aim for a more rapid response capability to changes in the market environment and, as well as accelerating our digitalization strategy, for more rapid expansion of higher value-added business. The newly established Center of Excellence in Finance & Administration will also enable us to harmonize internal administrative processes and streamline structures. Procurement structures are also being optimized with the aid of data-driven decision-making and international collaboration.

Digitalization is also pivotal to the reduction of carbon emissions as it makes it possible to better anticipate future steel demand and further shrink the emissions footprint in logistics. Data management and automation minimize intransparency and make for efficient resource management, thus benefiting the environment in the long term. The resulting synergies between digitalization and climate action drive potential innovation throughout the value chain.

Operational opportunities

Our “Klöckner & Co 2025: Leveraging Strengths” strategy brings with it numerous opportunities from operational measures.

A case in point is the successful ongoing implementation of our digitalization strategy, both internally and externally. Our external focus here is on improving and extending customer interface solutions with the aim of enhanced customer experience. Internally, our processes are increasingly digitalized and automated. We aim to boost process speed and efficiency with seamless, end-to-end process integration featuring a very high degree of digitalization and automation. Furthermore, we are working to implement data-driven decision-making along the entire value chain. We believe this will create opportunities to reduce working capital requirements, leading to less volatility in profitability and cash flow generation.

We aim under our strategy to continue growing and to become the leading digital one-stop-shop platform for steel, other materials and processing services in Europe and the Americas. Among other measures taking us a big step closer to this goal, we have fundamentally reorganized our digital unit, kloeckner.i. We have now pooled kloeckner.i, Group IT and Digital Transformation under the umbrella of the "new" KCI. This restructuring gives the country organizations a central point of contact that provides support with the digital business transformation and advice on technical solutions. The new KCI is divided into three departments focusing on different areas of expertise: Transformation, Product, and Engineering & IT. In collaboration with the operating business, Transformation develops more efficient processes, helps specify requirements for tools, provides analyses and creates AI-based solution for applications such as Kloeckner Assistant. The Product department identifies future digital products, tests market solutions and programs proprietary solutions such as PRISM, an application designed to support data-driven, algorithm-based pricing in the future. Key focal areas in the Engineering & IT department include programming and continuously improving our own digital technologies, such as Kloeckner Assistant, and operating and managing the global IT infrastructure and IT security. A further development has been the launch of a new unit, KCI US. This second innovation hub in the United States is intended to support the transformation of our US business and to better serve local digitalization needs. KCI US will focus on innovation and transformation and be closely linked with the new KCI. The focus of the "new" KCI is to develop ways of optimizing processes and where possible find standardized solutions with the aim of achieving a higher degree of automation. This gives Klöckner & Co a key competitive edge over smaller competitors who are unable to exploit such synergies. It also facilities faster growth by way of acquisitions. Proven, more efficient processes can be implemented quickly, making it easier to enhance productivity in acquired businesses.

Our digitalization strategy includes the implementation of digital tools, such as Kloeckner Assistant and the XOM eProcurement tool, which drive our transition to "zero touch" in the internal value chain. We are working on extending the range of order formats that Kloeckner Assistant can handle to include other options, such as email or even voice, and on further reducing the need for manual input. In addition, we are improving day-to-day price calculation by optimizing the software we use to provide price recommendations for sales staff throughout the Group. Our pricing system enables us to supply sales staff with automatically generated, rational price recommendations that reflect individual customer behavior. For further support in our pricing decisions, we are introducing customer group-based pricing, where customers are categorized by factors such as past purchasing behavior, product demand and quote acceptance rate. These improvements in the pricing process allow us to provide data-driven price recommendations for individual products and customer groups.

Alongside our in-house activities at kloeckner.i, our venture company kloeckner.v also invests through selected venture capital firms, and also directly, in start-ups that support our digitalization strategy with disruptive approaches. At the same time, digitalization enables us to apply the working methods and tools of business start-ups so as to be more agile, faster and more effective in our operations as well as to create added value for customers. With this in mind, we have a diverse range of digital tools in deployment across our various country organizations. Based on such solutions, we are committed to making all processes simpler and more efficient along the entire value chain.

We are also working to implement harmonized procurement processes across our regions and locations so that we can harness data from our digital systems for strategic procurement decisions. Optimizing the functionality of the XOM eProcurement tool could additionally provide a basis for developing price forecasting tools. Digitalization also enabled us to adapt very rapidly as a Group to the new circumstances during the COVID-19 pandemic by enabling us to do things such as switch smoothly and immediately to remote working. The same will apply to the future needs of the transformed world of “new work” – the changes in employment as a result of globalization, digitalization and lasting consequences of the pandemic after it has subsided. We consider this an important part of Klöckner & Co’s attractiveness as an employer brand, and hence a competitive advantage in the increasingly difficult market for skilled workers and new talent.

By integrating and collaborating with additional partners within our platform model, we can significantly expand the range of products and services on offer and extend our regional coverage with limited capital expenditure. In addition to our existing suppliers, we are also looking for new partners with complementary products, services and capabilities. We aim to expand our product and service portfolio and our regional coverage in order to further increase our customer base and share of wallet. This is supported by our new customer-centric sales approach, in which we specifically address customers based on their sector and purchasing behavior, while we align our portfolio at the same time to customer needs and our profitability. An example of this, as part of our strategy, is the further optimization and expansion of our presence in Mexico with the opening of a new facility in Querétaro, central Mexico, in spring 2022. The purpose of this investment is to supply flat rolled products for the fast-growing international automotive sector in Mexico. This strategic investment in a new facility at the heart of Mexico’s automotive industry adds a second site in Mexico and enables us to expand our range of sophisticated supply chain solutions. The facility has been built to supply automotive, heating, air conditioning and household appliance manufacturers, metal formers and makers of enclosures and casings for telecommunications and electronics. With an extensive product portfolio and a growing national footprint, Kloeckner Metals Querétaro is not only able to supply manufacturers and fabricators from a wide range of sectors, but also to enter into alliances with customers for higher value-added processing and supply-chain services.

We also deploy our strong product expertise on a market-specific and industry-specific basis according to market size, key competitors and customer profiles in order to grow our customer base.

In terms of operational excellence, we constantly strive to improve processes and profitability by eliminating internal process inefficiencies for a lean cost structure and smart resource allocation. As part of efforts toward a lean cost structure, we have cut costs by reducing the number of full-time staff on the administration side, increasing automation and simplifying processes throughout the organization. In addition, we make increasing use of data-driven models for business decisions in sales and procurement in order to balance net working capital. We are certain that centralizing and automating logistics will also help remove inefficiencies and control costs. Instruments such as transport planning tools improve logistics planning based on data and route tracking in order to optimize routes and stops at customer premises.

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

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

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

Overall statement on the opportunity situation of the Group

Klöckner & Co's most significant opportunity is digitalization and automation, together with transformation into a platform enterprise, as described above. We see a further major opportunity in additionally becoming the industry pioneer in sustainability and in this way gaining a significant competitive advantage, as this means we can provide customers with the best possible support in their growing need for sustainable solutions to fit their business model. As a result of this and our accelerated transformation, supported where applicable by selective acquisitions, we believe that Klöckner & Co is well positioned to take advantage of opportunities as they arise.

6. Group forecast

Despite the ongoing COVID-19 pandemic, and after the recovery was limited in the reporting year mostly due to supply chain restrictions, we expect demand in our key European and US markets to pick up significantly in fiscal year 2022. In light of this, even though the forward path of the pandemic continues to be uncertain, we expect to see a considerable year-on-year increase in shipments. As a result, we anticipate considerable growth in Group sales.

In the reporting year, driven in particular by prices and supported by strict net working capital management and the substantial effects of the Surtsey project, we generated our best operating income (EBITDA) before material special effects since the IPO in 2006. As last year's exceptional positive price dynamic is not expected to be repeated, we expect a considerable year-on-year decrease in EBITDA before material special effects in 2022. Additionally, substantial positive material special effects, in the amount of €54 million, have already been realized at the beginning of the fiscal year from sales of properties in Switzerland and France.

After cash flow from operating activities was negative in the reporting year due to the strong rise in working capital driven by high steel prices and due to the pension plan funding, we expect a very considerable increase with significantly positive cash flow from operating activities in the current fiscal year.

	Shipments (Tto)		Sales (€ million)	
Forecast by segment	2021	Forecast 2022	2021	Forecast 2022
Kloeckner Metals US	2,399	Considerable increase	3,511	Considerable increase
Kloeckner Metals EU	1,728	Considerable increase	2,584	Considerable increase
Kloeckner Metals Non-EU	754	Considerable increase	1,345	Slight increase
Holding and other group companies	-		-	
Group	**4,881**	**Considerable increase**	**7,441**	**Considerable increase**

	EBITDA before material special effects (€ million)		Cash flow from operating activities (€ million)	
	2021	Forecast 2022	2021	Forecast 2022
Kloeckner Metals US	456	Considerable decrease	– 64	Considerable increase
Kloeckner Metals EU	294	Considerable decrease	– 36	Considerable increase
Kloeckner Metals Non-EU	107	Considerable decrease	– 46	Considerable increase
Holding and other group companies	– 8		– 160	
Group	**848**	**Considerable decrease**	**– 306**	**Considerable increase**

"Constant" corresponds to a change of 0–1%, "slight" >1–5% and "considerable" >5%. The sales forecast for the Group is based on the assumption that the average sales price per ton for the year will remain stable compared with the prior-year period and that any potential deviation will not exceed a mid-single-digit percentage level.

Duisburg, March 1, 2022

The Management Board

7. Corporate Governance Statement

The following Corporate Governance Statement pursuant to Section 289f (1) sentence 2 and Section 315d of the German Commercial Code (HGB) is issued jointly by the Management Board and the Supervisory Board, with the Management Board and the Supervisory Board each responsible for their respective parts. The Corporate Governance Statement also includes the report on the Company's corporate governance (see Principle 22 of the German Corporate Governance Code, also referred to in the following as the "Code").[1]

The Remuneration Report for the last fiscal year, the auditor's report pursuant to Section 162 of the German Stock Corporation Act (AktG), the applicable remuneration system for the Management Board pursuant to Section 87a (1) and (2) sentence 1 of the German Stock Corporation Act and the most recent remuneration resolution pursuant to Section 113 (3) of the German Stock Corporation Act are available on the Company's website at www.kloeckner.com. The Remuneration Report for the last fiscal year and the auditor's report in accordance with Section 162 of the Stock Corporation Act are also included in this Annual Report as part of the Management Report.

Declaration of Conformity 2021 and Application of the German Corporate Governance Code

The Management Board and Supervisory Board of Klöckner & Co SE are required under Section 161 of the German Stock Corporation Act to submit an annual declaration stating that the recommendations of the Government Commission on the German Corporate Governance Code published by the Federal Ministry of Justice and Consumer Protection in the official section of the Federal Gazette have been and continue to be complied with, or listing those recommendations that have not been or will not be complied with and, if applicable, the reasons why. In the year under review, the Management Board and Supervisory Board of Klöckner & Co SE once again paid close attention to meeting the recommendations and suggestions of the Code. The last annual Declaration was submitted in December 2021. It is reprinted below and is also available on the Klöckner & Co SE website. All Declarations of Conformity previously submitted are also available on the website.

2021 Joint Declaration of Conformity by the Management Board and the Supervisory Board of Klöckner & Co SE pursuant to Section 161 of the German Stock Corporation Act on the German Corporate Governance Code

Except for the deviations listed below, Klöckner & Co SE had complied with all recommendations of the German Corporate Governance Code in the version of December 16, 2019 (published on March 20, 2020 in the Federal Gazette) since the last Declaration of Conformity dated December 14, 2020 (considering the update as of March 15, 2021) and will comply with those in future:

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

[1] Except as otherwise indicated, all references relate to the German Corporate Governance Code in the version of December 16, 2019 published on March 20, 2020.

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

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

G.1 (deviation only applies to period until May 12, 2021):
Recommendation G.1 of the Code comprises several provisions regarding the content of the remuneration system for the Management Board which is resolved by the Supervisory Board.

The “old” remuneration system for the Management Board in place until May 12, 2021 was approved by the general meeting in 2016. However, it did not comply to the new recommendation G.1 of the Code in all aspects. As already announced in the Annual Report for the fiscal year 2019 (p. 39) and in accordance with the transitional provisions of the ARUG II, the Supervisory Board proposed an adapted remuneration system to the general meeting in 2021 which also complies with the requirements of recommendation G.1 of the Code. This new remuneration system was approved by the general meeting on May 12, 2021 and determined by the Supervisory Board on the same day.

Duisburg/Germany, December 13, 2021

The Supervisory Board

The Management Board

APPLICATION OF THE GERMAN CORPORATE GOVERNANCE CODE

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

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

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

The following should be noted in connection with the application of the Code with regard to the contracts with members of the Management Board:

The contracts with Management Board members Gisbert Rühl, Dr. Oliver Falk and John Ganem were entered into prior to publication of the Code as most recently amended. As set out in the rationale of the Code with regard to Section G.I of the Code, the amendments to the Code do not have to be taken into account in Management Board contracts that are already in place; those contracts therefore continued, or continue, as the case may be, to be subject to the Code in the version of February 7, 2017. This was complied with in relation to the contracts with members of the Management Board in the reporting year. The contracts with Management Board members Dr. Oliver Falk and John Ganem were amended in line with the requirements of the new Code upon the renewal of their appointments effective August 1, 2022. The contract with former CEO Gisbert Rühl was terminated before the end of his term by mutual agreement during the reporting year. For further information on the limited deviation from recommendation G.12 of the Code in this regard, please see the Declaration of Conformity of December 14, 2020 as updated on March 15, 2021. For the sake of completeness, it should be noted that the variable remuneration payments to Gisbert Rühl would have been significantly larger under an arrangement formally in conformity with the Code than they were under the agreement made.

Description of Management Board and Supervisory Board procedures and of committee composition and procedures

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

MANAGEMENT BOARD

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

In the past fiscal year, the Management Board of Klöckner & Co SE comprised four members until May 12, 2021, three members from May 13, 2021 to May 31, 2021 and once again four members from June 1, 2021 onwards, who are appointed and dismissed by the Supervisory Board in accordance with the European Company Regulation, the German Stock Corporation Act and the Articles of Association: Chairman of the Management Board and CEO Guido Kerkhoff, Chief Financial Officer (CFO) Dr. Oliver Falk, CEO Europe Bernhard Weiß (member of the Management Board since June 1, 2021) and CEO Americas John Ganem. Long-serving CEO Gisbert Rühl stepped down from the Management Board on May 12, 2021.

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

In addition to 25 Management Board meetings in the reporting year, the members of the Management Board held coordinating discussions on numerous occasions and met or held conference calls with the segment management teams; three resolutions were also adopted by written procedure outside of Management Board meetings.

The global COVID-19 pandemic, which broke out in fiscal year 2020, continued to be a focus of the Management Board's work in the reporting year. The central crisis team established in fiscal year 2020 remained in place. This team continued at first to report on a regular basis to the Management Board (fortnightly and when necessary on an ad-hoc basis) and subsequently as needed regarding the pandemic's impacts on the Group. Together with the local crisis teams, the central crisis team coordinated programs of measures within the segments and adapted them to the pandemic situation as needed (including hygiene policies, measures required by law such as compliance with workplace vaccinated/recovered/tested rules, status reports on cases of illness and action taken). Coordination with country organizations varied in intensity according to the course of the pandemic. The same applied for consultation between the Management Board and the Supervisory Board.

SUPERVISORY BOARD

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

The Supervisory Board of Klöckner & Co SE comprises six members, all of whom represent shareholders and are generally elected by the Annual General Meeting. The Chairman of the Supervisory Board is Prof. Dr. Dieter H. Vogel; his deputy is Dr. Ralph Heck. As with all members of the Supervisory Board, both have extensive experience in managing and/or supervising international corporations and possess the high level of professional expertise required to carry out their duties. Reasonable costs for external training of Supervisory Board members are borne by the Company. The following Supervisory Board members were considered independent within the meaning of Code Recommendation C.6 in the reporting year: Dr. Ralph Heck, Prof. Dr. Tobias Kollmann, Uwe Röhrhoff, Ute Wolf and Prof. Dr. Karl-Ulrich Köhler (who left the Supervisory Board at the end of the Annual General Meeting on May 12, 2021). As the sole shareholder of SWOCTEM GmbH, which is a major shareholder in the Company, Prof. Dr. Friedhelm Loh is not to be considered independent of a controlling shareholder. Solely as a precaution, due to his membership of the Supervisory Board for more than twelve years, Prof. Dr. Dieter H. Vogel is deemed not to be independent of the Company and of the Management Board (see Code Recommendation C.7), although the Supervisory Board does not see any risk of conflicts of interest. In fact, it is in the interest of the Company for Prof. Dr. Dieter H. Vogel to serve on the Company's Supervisory Board even if the term stated in the Code is exceeded (see the further information in the Declaration of Conformity). No members of the Supervisory Board are former members of the Company's Management Board.

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

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

In accordance with the Supervisory Board's Rules of Procedure, resolutions are adopted by simple majority unless otherwise stipulated by law or by the Articles of Association. All resolutions were adopted unanimously.

SUPERVISORY BOARD SELF-ASSESSMENT

Once a year, the Supervisory Board evaluates and reviews the efficiency of its activities in the form of a self-assessment, with a detailed evaluation every two years. The most recent detailed evaluation was carried out in 2020. Consequently, a summary evaluation was carried out in the reporting year. This took the form of an open discussion of the efficiency of the Supervisory Board's organization and working methods, which was prepared by the Executive Committee. The Supervisory Board does not consider any changes to be necessary in the preparation, procedure or agendas of its meetings, or in the manner in which tasks are delegated between the plenary Supervisory Board and its committees. Nonetheless, the evalution affirmed that, where the situation during the pandemic allows, one Supervisory Board meeting a year should be held at one of Klöckner & Co's operating sites in order to foster direct exchange between the Supervisory Board and local management. The Supervisory Board considers the division of its work to be well balanced between strategic issues, advisory activities and supervisory duties. The Supervisory Board prepares detailed annual reports for the Annual General Meeting on its work and the main focus of its activities for each fiscal year (p. 12 et seq.).

SUPERVISORY BOARD COMMITTEES

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

EXECUTIVE COMMITTEE

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

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

AUDIT COMMITTEE

The primary task of the Audit Committee is to audit financial reporting, review the accounting process and the effectiveness of the internal control system, the risk management system and the internal audit system, the audits of the financial statements (notably with regard to the pre-selection, engagement and verification of the independence of the auditor, the services additionally rendered by the auditor, issuance of the audit engagement to the auditor, the quality of the audit of the financial statements, the establishment of focal points for the auditor's activities, and fee arrangements), and compliance, as well as to prepare the Supervisory Board review of the Group non-financial report and any dependency report. The Supervisory Board has also entrusted the Audit Committee with discussing the half-year financial Group report and the quarterly statements with the Management Board ahead of publication and preparing the Supervisory Board resolution on approval of the annual and consolidated financial statements. The Chairwoman of the Audit Committee, Ute Wolf, is an (independent) financial expert within the meaning of Section 100 (5) of the German Stock Corporation Act (in the version applicable to Klöckner & Co SE, i.e., prior to the amendments under the Financial Market Integrity Strengthening Act ["FISG"]) and within the meaning of Recommendation D.4 of the Code. Based on multiple years of service as Chief Financial Officer of a listed major international chemicals group, Ute Wolf has specific expertise and experience in the application of financial reporting principles and internal control procedures and is familiar with audits. Alongside Committee Chairwoman Ute Wolf, the other members of the Audit Committee are Supervisory Board Chairman Prof. Dr. Dieter H. Vogel and Uwe Röhrhoff (since May 12, 2021; until May 12, 2021: Prof. Dr. Karl-Ulrich Köhler). All members of the Audit Committee also already meet the requirements under FISG. In addition to Ute Wolf, who has expertise in the field of financial reporting, Uwe Röhrhoff has, for formal reasons, been named a member of the Supervisory Board and Audit Committee who has expertise in the field of auditing. The Audit Committee additionally possesses the necessary sector expertise.

MEETINGS OF THE SUPERVISORY BOARD AND ITS COMMITTEES

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

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

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

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

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

Another objective laid out in the Rules of Procedure is that an appropriate number of the members of the Supervisory Board should be independent within the meaning of Recommendation C.6 of the Code, taking into account the ownership structure. The Supervisory Board determines what it considers to be an appropriate number for this purpose on the basis of its own assessment and provides information in this regard in the Corporate Governance Statement. At its meeting on December 13, 2021, the Supervisory Board determined that at least four of its members are to be independent of the company and its Management Board and that at least one member is to be independent of any controlling shareholder. In assessing the independence of its members, the Supervisory Board takes into consideration the aspects referred to in Recommendation C.7 of the Code and the criteria specified in the recommendation by the European Commission of February 15, 2005 (see Annex 2 to the Commission's recommendation of February 15, 2005 regarding the duties of non-managing directors/supervisory board members/listed companies and regarding management/supervisory board committees [2005/162/EC]). Additionally, in order to avoid potential conflicts of interest, Supervisory Board members are not to be members of governing bodies of, or exercise advisory functions at, significant competitors of the enterprise, and are not to hold any personal relationships with a significant competitor. Furthermore, no more than two former members of the Company's Management Board should be part of the Supervisory Board and the Supervisory Board member who chairs the Audit Committee must be independent and must not be a former member of the Company's Management Board whose appointment ended less than two years earlier.

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

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

The legal requirements concerning the composition of the Supervisory Board and of the Audit Committee and concerning the expertise held by individual members changed as a result of FISG, which entered into force in the reporting year. Pursuant to transitional provisions, the new requirements do not apply if all members of the Supervisory Board and the Audit Committee were appointed before July 1, 2021. They consequently do not yet apply to the Supervisory Board and Audit Committee of Klöckner & Co SE. Irrespective of this, the Supervisory Board and Audit Committee already meet the requirements under FISG in their current composition (see below).

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

In the opinion of the Supervisory Board, the criteria and objectives set out above as well as the profile of skills and expertise for the entire Supervisory Board are met with the current composition of the Supervisory Board. The members of the Supervisory Board possess the requisite knowledge, skills and professional experience; the Supervisory Board as a whole has the necessary sectoral knowledge. With regard to the profile of skills and expertise, almost all members of the Supervisory Board are or have been in management positions at large or medium-sized companies operating internationally, and hold or have held a variety of responsibilities including distribution/sales, auditing, accounting and financial reporting, controlling, risk management, internal audit and compliance. Furthermore, Prof. Dr. Tobias Kollmann is also regarded as an identified digitalization expert. The diversity criterion of internationality has also been met. Ute Wolf, as CFO of Evonik Industries AG and as an independent member of the Supervisory Board, possesses the expertise in the field of financial reporting or auditing required under Section 100 (5) of the German Stock Corporation Act (pre-amendment) (and is thus considered a “financial expert”).

In the opinion of the Supervisory Board of Klöckner & Co SE, the new requirements under FISG – which are not yet applicable to the Supervisory Board of Klöckner & Co SE (see above) – are already met. All members of the Audit Committee have both expertise in the field of financial reporting and expertise in the field of auditing. The Supervisory Board has formally named Ute Wolf as a member of the Supervisory Board and Audit Committee who has expertise in the field of financial reporting and Uwe Röhrhoff as a member of the Supervisory Board and Audit Committee who has expertise in the field of auditing. The Supervisory Board and the Audit Committee possess the requisite sectoral knowledge (as stated above).

Finally, the Supervisory Board also has an appropriate number of independent members. In the Supervisory Board’s assessment, Dr. Ralph Heck, Prof. Dr. Tobias Kollmann, Uwe Röhrhoff and Ute Wolf are currently independent within the meaning of Recommendation C.6 of the Code (see page 90). This corresponds to the appropriate number as determined by the Supervisory Board. On account of the fact that SWOCTEM GmbH qualifies as a controlling shareholder, Prof. Dr. Friedhelm Loh is not to be considered independent of a controlling shareholder. Solely as a precaution (see above), Prof. Dr. Dieter H. Vogel is considered not to be independent of the Company and the Management Board within the meaning of Recommendation C.7 of the Code. The Code requirement in this regard that over half of all Supervisory Board members be independent of the Company and of the Management Board is therefore likewise satisfied.

ACT ON EQUAL PARTICIPATION OF WOMEN AND MEN IN LEADERSHIP POSITIONS

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

The Supervisory Board set a target of 16.6% for women on the Supervisory Board and 0% for women on the Management Board in fiscal year 2017. The targets must be met by June 30, 2022 and are currently achieved. The target for the Management Board, a figure of 0%, was set in fiscal year 2017 based on the size and composition of the Management Board at that time. No new appointments or changes of appointments were then planned or foreseeable. The Supervisory Board is aware of the importance of this topic. However, it is severely constrained here by market and industry conditions. This was also the case with regard to the additional appointment to the Management Board in the reporting year. Here again, the Supervisory Board considered and examined the possibility of appointing a woman, but was unable to identify any female candidate whose profile appeared comparatively suitable to that of Bernhard Weiß.

In particular, in consideration of the position to be filled as Management Board member in charge of the operating business in Europe (CEO Europe), and of the short settling-in period with a view to implementing ongoing and planned measures in the European country organizations, an in-house appointment was deemed preferable and no women candidates were available. This naturally limited the available choice of candidates.

The Management Board established the following targets for women at the upper two leadership levels below Management Board level in fiscal year 2017: 33.3% for level 1 and 20% for level 2. Both targets are also to be met by June 30, 2022. Level 1 generally comprises head of corporate department functions, while level 2 consists of department head functions. As of December 31, 2021, the percentage of women was 10% at level 1 and 0% at level 2. The targets were thus not yet met in the 2021 reporting year.

The Act on Equal Participation of Women and Men in Leadership Positions (FüPoG) was amended in the reporting year by the Act Supplementing and Amending the Stipulations for the Equal Participation of Women in Leadership Positions ("FüPoG II"). FüPoG II applies for the first time for new targets to be set in 2022 and does not affect the existing target percentages. The Supervisory Board and the Management Board will take the requirements under FüPoG II into account when setting the new target percentages.

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

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

DIVERSITY POLICY FOR COMPOSITION OF THE MANAGEMENT BOARD; OBJECTIVES OF THE DIVERSITY POLICY

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

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

Gender:
The target for the percentage of women on the Management Board has been introduced in accordance with the Act on Equal Participation of Women and Men in Leadership Positions. The current target is 0% (see also the section, "ACT ON EQUAL PARTICIPATION OF WOMEN AND MEN IN LEADERSHIP POSITIONS", on page 94).

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

Internationality:
A further aspect of diversity is internationality. This can already be part of the educational/professional background where a Management Board member has spent part of his or her career and/or education abroad. Internationality must notably be seen against the backdrop of Klöckner & Co SE's global activities with its core markets in Europe and America.

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

IMPLEMENTATION OF THE DIVERSITY POLICY FOR COMPOSITION OF THE MANAGEMENT BOARD

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

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

OUTCOMES FOR THE MANAGEMENT BOARD IN FISCAL YEAR 2021

In the opinion of the Supervisory Board, the current members of the Management Board ensure an appropriate degree of diversity on the Management Board, in particular through their careers as well as their respective educational and professional backgrounds. The Supervisory Board considers that the professional background of Bernhard Weiß is an excellent complementary fit for the Management Board. He is able to look back on numerous international positions in various industries on several continents. His experience in management positions in South Africa and France spans many years. Consequently, he further strengthens the internationality aspect, in particular with regard to Europe (the Management Board has already had a US citizen among its ranks since 2019 in the person of John Ganem, CEO of Kloeckner Metals US). In terms of length of service, Management Board members Dr. Oliver Falk and John Ganem have been in office since 2019 and Guido Kerkhoff since 2020; Bernhard Weiß was appointed to the Management Board effective June 1, 2021. Guido Kerkhoff has relevant sectoral knowledge by virtue of his previous service at thyssenkrupp and was able to thoroughly familiarize himself with the Klöckner & Co Group during the transition phase alongside Gisbert Rühl. Dr. Oliver Falk and John Ganem have been with Klöckner & Co for decades, while Bernhard Weiß was CEO of the French country organization for several years before his appointment to the Management Board. All three consequently have profound knowledge both of the industry and of the activities of the Klöckner & Co Group. With regard to age structure, Guido Kerkhoff's assumption of office as CEO and the departure of Gisbert Rühl further reduced the average age of the Management Board. The renewal of Dr. Oliver Falk's appointment by three years until 2025 when he reaches the age of 63 was decided having due regard to the above-mentioned requirement. Finally, the current Management Board composition is also consistent with the existing target ratio for women on the Management Board of 0%.

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

LONG-TERM SUCCESSION PLANNING

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

DIVERSITY POLICY FOR COMPOSITION OF THE SUPERVISORY BOARD; OBJECTIVES OF THE DIVERSITY POLICY

In accordance with the Supervisory Board's Rules of Procedure, its members must, as a general rule, possess the knowledge, skills and professional experience required for the proper execution of their duties. Taking into consideration the interests of the Company, the aspect of diversity also has to be taken into account, with the aim of attaining a Supervisory Board that is as diverse as possible in terms of age and gender as well as educational and professional background. The requirements profile for nomination of a Supervisory Board member is largely driven by which of the above objectives and criteria are to be prioritized in light of the Supervisory Board's composition at the time (see also the section, "PROFILE OF SKILLS AND EXPERTISE/OBJECTIVES FOR THE COMPOSITION OF THE SUPERVISORY BOARD/REQUIREMENTS PROFILE FOR SUPERVISORY BOARD MEMBERS", on page 92). Furthermore, specific characteristics of the Company and its ownership structure must be taken into account where possible.

The age limit and regular length of service are intended to contribute to a balanced age structure and also to the objective of finding and retaining suitable candidates with sufficient professional experience and personal aptitude for office. A further aspect is the requisite continuity with a view to ongoing support for corporate development.

With regard to the participation of women in leadership positions, the Supervisory Board set a target of 16.6% in 2017 (see also the section, "ACT ON EQUAL PARTICIPATION OF WOMEN AND MEN IN LEADERSHIP POSITIONS", on page 94).

IMPLEMENTATION OF THE DIVERSITY POLICY FOR THE SUPERVISORY BOARD

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

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

The Supervisory Board also carries out a regular self-evaluation that includes aspects relating to its composition.

OUTCOMES FOR THE SUPERVISORY BOARD IN FISCAL YEAR 2021

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

With respect to the age structure of the Supervisory Board, Prof. Dr. Dieter H. Vogel exceeds the regular age limit of 75 and has also been a member of the Supervisory Board for over 15 years. However, allowance must be made for the fact that the limit is merely intended as a guide and that extensive changes were made on the Supervisory Board between 2015 and 2018 and also on the Management Board in the last few years. In this light, the continuity represented by Prof. Dr. Dieter H. Vogel is to be welcomed. His professional and personal qualifications are beyond any doubt. The same applies to Prof. Dr. Friedhelm Loh, who reached the age of 75 in the reporting year. His status as a major shareholder also has to be taken into account in this connection.

From the point of view of the Supervisory Board, its composition meets the selected diversity targets. In particular, its members present a welcome mix of industries as well as occupational and educational backgrounds, as can be seen from their CVs, which are published on the website and updated annually. The diversity criterion of internationality has also been met: Dr. Ralph Heck is a Belgian national whose permanent residence is in Switzerland, while Uwe Röhrhoff has served and continues to serve in various parts of the world in both professional roles and in offices held. The Supervisory Board has a balanced age structure (ages 51 to 80) and length of service (from approximately one to 15 years, although Uwe Röhrhoff was already a member of the Supervisory Board of Klöckner & Co SE from 2017 to 2018). Consequently, the Supervisory Board sees no acute need for further action at present with regard to diversity on the Supervisory Board. With a view to the upcoming Supervisory Board elections in fiscal year 2022, the Supervisory Board will take the described diversity criteria as well as the profile of skills and expertise into account to the greatest possible extent when deciding its nominations to the Annual General Meeting.

ANNUAL GENERAL MEETING

The shareholders of Klöckner & Co SE exercise their rights, including their voting rights, at the Annual General Meeting. The most recent Annual General Meeting took place in Duisburg on May 12, 2021. Against the backdrop of the ongoing COVID-19 pandemic during the reporting year, the Annual General Meeting was held as a virtual meeting without shareholders physically present. This option was provided by the legislature at short notice following the outbreak of the COVID-19 pandemic in 2020 and extended – with minor changes – for the reporting year. The purpose is to enable general meetings to be held while avoiding risks to the health of shareholders and others involved.

The next Annual General Meeting is scheduled for June 1, 2022. In general, the Company's preference would be for an in-person meeting. Given the difficulty of predicting how the pandemic situation will develop, it is not currently possible to rule out that the Annual General Meeting will once again have to take place in virtual form; the legislature already made provision for this in the reporting year by once again extending the option of holding virtual general meetings. The Management Board and Supervisory Board have resolved that the shareholders are to receive all support and information in accordance with the law, the Articles of Association and the recommendations and suggestions contained in the Code. Klöckner & Co SE publishes the invitation to the Annual General Meeting together with all requisite reports and documents in German and English on its website. The entire Annual General Meeting will be broadcast live to the public on our website. The opening of the Annual General Meeting by the Chairman of the Meeting, the CEO of the Management Board's speech and the report by the Supervisory Board are made available there in recorded form after the Annual General Meeting.

MANAGERS' TRANSACTIONS (PREVIOUSLY: DIRECTORS' DEALINGS)

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

FINANCIAL REPORTING AND AUDIT OF THE FINANCIAL STATEMENTS

Financial reporting by the Klöckner & Co Group is performed in accordance with International Financial Reporting Standards (IFRS). The financial statements of Klöckner & Co SE are prepared in accordance with the German Commercial Code (HGB). For reasons of simplicity and clarity, the management report takes the form of a combined management report covering the annual and consolidated financial statements. By law, the auditor of the annual and consolidated financial statements is elected by the Annual General Meeting. We also ensure adherence to auditor independence stipulations. The auditor and Group auditor appointed by the Annual General Meeting 2021 for fiscal year 2021 is KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin. German public auditors (Wirtschaftsprüfer) Christoph Velder (since 2018, four signatures) and Ulrich Keisers (since 2016, six signatures) are the key audit partners. KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin (or, until 2009, its subsidiary, KPMG Hartkopf + Rentrop Treuhand KG, Wirtschaftsprüfungsgesellschaft, Cologne) has been the auditor for Klöckner & Co SE (or its legal predecessors) since fiscal year 2005. A change of auditor in accordance with the Financial Market Integrity Strengthening Act (FISG) has not yet been necessary because of the tendering procedure carried out for the audit of the financial statements in 2017. Further information on the proposal made to the Annual General Meeting on the election of the auditors of the annual financial statements and consolidated financial statements for fiscal year 2022 will be published together with the invitation to the 2022 Annual General Meeting on our website at www.kloeckner.com.

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

TRANSPARENCY

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

COMPLIANCE

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

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

COMPLIANCE ORGANIZATION

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

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

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

BASIC ELEMENTS OF THE CMS

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

1. Prevention
2. Detection
3. Reporting and reaction

The appropriateness, implementation and effectiveness of the CMS are regularly reviewed by both the Corporate Internal Audit Department and an outside expert (most recently at the end of 2021).

PREVENTION

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

"TONE FROM THE TOP" AND ZERO TOLERANCE POLICY

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

COMPLIANCE RISK ASSESSMENT

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

COMPLIANCE COMMUNICATION AND COMPLIANCE PLATFORM

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

The compliance platform is available to all employees. Modules currently in use on the platform cover requests and approvals ("Ask Compliance"), vetting business partners ("Due Diligence"), a whistleblower system ("Let Us Know"), the Compliance SharePoint and the integrated Case Management Tool. The Compliance SharePoint serves as a "single point of truth" providing all relevant compliance documents, and is administered centrally by the CCO.

CODE OF CONDUCT, DIRECTIVES AND PROCEDURAL INSTRUCTIONS

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

COMPLIANCE TRAINING

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

BUSINESS PARTNER SCREENING AND ANTI-MONEY LAUNDERING

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

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

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

MANAGEMENT INTEGRITY SCREENING

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

SUPPLY CHAIN COMPLIANCE

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

CAPITAL MARKET COMPLIANCE

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

DETECTION

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

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

REPORTING AND REACTION

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

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

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

DATA PROTECTION

As a pioneer in the digitalization of the steel industry, we regard data protection as an essential requirement both in maintaining our lead and in ensuring security and sustainability. Strict data protection is therefore a key priority. We also aim to be the industry leader in terms of data protection. This is in keeping with the trust placed in us and the rigorous legal requirements on the protection of personal data.

Our data protection management system therefore continued to be subject to a continuous revision and improvement process during the reporting period. A special focal area of this process has been on updating and tightening the internal requirements for the deletion of personal data. At the same time, focus was placed on new developments in data protection of relevance to Klöckner & Co, particularly in the USA. The deployed IT systems were also continuously assessed with regard to regulatory and technical developments. We also further tightened our privacy policies for employees and customers, in particular with regard to transparency.

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

8. Remuneration Report

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

8.1 Management Board remuneration

Introduction

The following Remuneration Report pursuant to Section 162 of the German Stock Corporation Act (AktG) summarizes the main features of the remuneration systems for the Management Board and the Supervisory Board and describes the structure and the amounts of remuneration in the reporting year. The Report considers the recommendations of the German Corporate Governance Code in the version of December 16, 2019 (published on March 20, 2020 in the Federal Gazette, hereinafter referred to as the "Code"); for further information on the temporary deviation from the Code in this regard, a reference is made to the Declaration of Conformity in the Corporate Governance Statement on page 86. In accordance with Section 162 (1) of the German Stock Corporation Act, the Remuneration Report was prepared jointly by the Management Board and Supervisory Board and is audited by the auditor.

For better understanding and transparency, the main features of both remuneration systems applicable in the reporting year are presented in the following.

New remuneration system (2021 Remuneration System)

ANNUAL GENERAL MEETING'S VOTE ON THE 2021 REMUNERATION SYSTEM; APPRAISAL

On May 12, 2021, the Annual General Meeting of the Company approved the new remuneration system submitted by the Supervisory Board with a majority of 71.2% of votes cast. At its meeting following the Annual General Meeting (also on May 12, 2021), the Supervisory Board then adopted that remuneration system (hereinafter also referred to as the "2021 Remuneration System") in the form submitted to and approved by the shareholders. At its meeting in December 2021, the Supervisory Board dealt intensively with the voting results and with the related points of criticism raised with regard to the 2021 Remuneration System (among other things regarding the personal investment in shares as a long-term incentive component (in the sense of an LTI component) and the possibility to provide a discretionary bonus).

In the opinion of the Supervisory Board, the personal investment in shares of the Company provided for in the 2021 Remuneration System meets the requirement for an LTI component. Although the amount to be invested is initially based on the annual bonus, the amount actually accruing to a Management Board member after expiration of the lock-up period is determined by the four-year performance of the Company's share price and is thus to be considered a long-term component. It should therefore make no difference whether the LTI component is transparently based on the performance of shares actually held or if the same result is achieved, for example, with a complicated virtual LTI program. With the selected LTI component, the Supervisory Board has also complied with Recommendation G.10 of the Code, under which the granted variable remuneration, taking the respective tax burden into consideration, shall be predominantly invested in shares and the long-term variable component only be paid out after a period of four years. This ensures alignment with shareholders' interests in positive share price performance. Management Board members are directly affected by the performance of the share price and the related risk of loss as they purchase the shares from their earned annual bonus. For the same reason, this form of long-term incentive is practically cost-neutral for the Company. It also avoids any dilutive effect on shareholders.

The discretionary bonus, on the other hand, merely comprises an option for recognizing extraordinary positive developments. Such a remuneration component is demanded in Recommendation G.11 of the Code. In this connection, the Supervisory Board emphasizes that the discretionary bonus has only actually been awarded on one occasion (in 2010) and this remuneration component continues to be reserved for truly exceptional circumstances. Taking these points into account, the Supervisory Board currently sees no need to adjust the 2021 Remuneration System.

BRIEF DESCRIPTION OF THE 2021 REMUNERATION SYSTEM

The 2021 Remuneration System considers all requirements under the Act Implementing the Second Shareholder Rights Directive (ARUG II) and under the Code. It is outlined in brief below (a more detailed description of the 2021 Remuneration System is available on the Company's website at https://www.kloeckner.com/en/group/management-board/management-board-remuneration.html).

Under the 2021 Remuneration System, remuneration for Management Board members consists of non-performance-related (fixed) and performance-related (variable) components.

The **non-performance-related remuneration** consists of a fixed salary, retirement provisions and ancillary benefits.

- **Fixed salary:** The fixed salary is paid in twelve equal monthly installments at the end of each month net of statutory tax and social insurance deductions. If a member of the Management Board is appointed or leaves during a fiscal year, the fixed salary is granted pro rata temporis.

- **Retirement provisions:** For retirement provision, each member of the Management Board receives an annual amount not exceeding 40% of the applicable fixed salary (gross), paid in twelve equal monthly installments at the end of each month in compliance with tax and social insurance provisions (effectively as cash compensation for retirement provision). Should a member of the Management Board wish instead to receive retirement provision in the same amount in the form of payments by the Company into a reinsured pension/provident fund, the Company may accommodate this by making such a payment; if desired, also in advance at the beginning of the year.

- **Ancillary benefits:** The contractual ancillary benefits primarily include customary additional benefits such as insurance premiums (such as occupational and non-occupational accident insurance, liability insurance, industrial criminal law insurance and general legal expenses insurance) as well as the provision of communication devices and a company car for business and private use (in the case of the CEO potentially including driver). Ancillary benefits can vary in value from year to year due to person and occasion related issues but are limited to a maximum of 10% of the fixed salary. The ancillary benefits and hence the 10% limit do not apply to the reimbursement of expenses to which Management Board members are entitled by law, or to inclusion in D&O insurance in the interests of the Company, although Management Board members must bear the deductible required under the German Stock Corporation Act.

In addition to the non-performance-related remuneration components, all Management Board members receive **performance-related variable remuneration** in the form of a bonus, the amount of which initially depends on the degree to which certain targets are achieved in a fiscal year.

- **Target bonus:** The basis for determining the amount of the annual bonus is its target amount (target bonus). This is the annual bonus to which a member of the Management Board is entitled under the respective service contract at 100% achievement of the specified annual targets. According to the degree of over- or underachievement of the specified annual targets, the annual bonus increases or decreases on a target achievement curve specified when setting the targets. If annual targets are exceeded, the annual bonus may therefore exceed the target bonus. It is capped, however, at 200% of the target bonus (cap). There is no guaranteed minimum target achievement; in the worst case scenario, therefore, there may be no payout at all. If a member of the Management Board is appointed or leaves during a fiscal year, the bonus is paid pro rata temporis.

- **Personal investment component:** Beyond the annual target achievement, the annual bonus shall also provide incentives for long-term and sustainable growth in the value of the Company. By including long-term target factors, the targets to be set annually are intended to promote the strategic and sustainable development of Klöckner & Co (see below under "Targets and target remuneration"). In addition, the members of the Management Board must use the majority of the annual bonus amount after statutory tax and social insurance deductions to purchase shares in the Company and hold them on a long-term basis. To ensure that the personal investment component exceeds the remaining cash component, Management Board members are required to purchase such shares for a flat 30% of their gross annual bonus. Assuming a 50% tax and social insurance burden, 60% of the annual net bonus is consequently converted into the personal investment component. The personal investment component may increase or decrease relative to the cash component depending on the individual tax and social insurance burden but should always exceed the net amount of the cash component after statutory tax and social insurance deductions. The shares are normally purchased on the first stock market trading day of the month following payout of the cash component. Shares purchased as part of the personal investment component are subject to a four-year lock-up period. Once this lock-up period expires, Management Board members are free to sell or continue to hold the shares. The personal investment makes the multi-year performance of the Klöckner & Co share price a key determining factor of the variable Management Board remuneration.

- **Cash component:** The bonus amount remaining after deduction of the personal investment component is paid out to Management Board members following the Supervisory Board meeting at which the annual financial statements are adopted for the respective reporting year. Assuming a 50% tax and social insurance burden, 40% of the annual net bonus is consequently paid out.

Discretionary bonus: In exceptional instances, to reward special performance and successes on the part of members of the Management Board, the Supervisory Board may, at its reasonable discretion, grant an extraordinary bonus (discretionary bonus). The total annual bonus granted, including any extraordinary bonus, may not exceed 200% of the target bonus. The Supervisory Board may make the granting of a discretionary bonus to a member of the Management Board conditional upon the Management Board member using part or all of the discretionary bonus to purchase shares in the Company.

Clawback: The Company may claw back performance-related remuneration (bonuses) if, after payment, it reveals that the audited and adopted consolidated financial statements on which the bonus entitlement is based were objectively in error and therefore, in accordance with the relevant accounting standards, are subsequently corrected either retrospectively or in the current consolidated financial statements, and a smaller or zero bonus entitlement would have arisen on the basis of the corrected audited consolidated financial statements.

Targets and target remuneration (target amount for direct remuneration; target total remuneration): The annual bonus is calculated for each fiscal year and depends on the degree of target achievement in relation both to financial and to non-financial targets.

In order to specify the financial targets, the Supervisory Board annually sets targets for financial key performance indicators and their respective weighting in calculation of the bonus amount. They are weighted relative to the non-financial targets in such a way that the financial targets account for 60% to 80% of the target bonus at 100% achievement of all financial and non-financial targets.

As financial targets, the Supervisory Board sets targets for selected financial key performance indicators at the level of the Group as a whole. The following financial performance indicators are generally used for this purpose:

- Earnings before interest, taxes, depreciation and amortization and impairments (EBITDA), adjusted for any material special effects, as the case maybe.
- Operating Cash flow (OCF; cash flow from operating activities).

In place of or in addition to EBITDA and OCF, the Supervisory Board may specify financial indicators out of the following list if it is convinced that they are more suitable as performance indicators for the development of Klöckner & Co: EBIT (earnings before interest and taxes), net cash flow (cash flow from operating activities less cash flow from investing activities and less repayments of lease liabilities), net financial debt (financial liabilities plus transaction costs less cash and cash equivalents), ROCE (return on capital employed, measured as EBIT over average capital employed), ROE (return on equity, measured as EBIT over equity) and relative capital market performance (the capital market performance of Klöckner & Co shares relative to an index). When deciding on the determination and weighting of the key performance indicators, the Supervisory Board gives due regard to ensuring a continuously effective incentive structure.

The Supervisory Board sets non-financial targets each year by specifying between three and six performance indicators from the following list of strategy and sustainability targets that are of importance to the strategic and sustainable development of the Company, including its corporate social responsibility (CSR).

- Strategy: (1) Business development, (2) Market access and exploitation, (3) Transformation and digitization targets, (4) Optimization/efficiency improvement, (5) Leadership capabilities and strategic priorities, (6) Corporate structure and organization and (7) Strategic projects
- Sustainability: (1) Compliance and risk management, (2) Customer satisfaction, (3) Employee-related targets (including health and satisfaction), (4) Diversity, (5) Innovation, (6) Succession planning, (7) Reporting and communication, (8) Limitation of CO_2 emissions and sustainable use of resources

As with the financial targets, the Supervisory Board also lodges measurable criteria to the non-financial targets so that a precise degree of target achievement can be determined after the end of a fiscal year. They are weighted relative to the financial targets in such a way that the non-financial targets account for between 20% and 40% of the target bonus at 100% achievement of all financial and non-financial targets.

The Supervisory Board sets a target amount for direct remuneration for each member of the Management Board. This comprises the fixed salary plus the target amount for the annual bonus assuming 100% target achievement.

Under the 2021 Remuneration System2021 Remuneration System, the target amount for the annual bonus accounts for approximately 60% of the target amount for direct remuneration, with – assuming a 50% tax and social insurance burden – the long-term variable remuneration in the form of the personal investment component accounting for approximately 36% and the short-term variable remuneration in the form of the cash component accounting for approximately 24% of the target amount for direct remuneration (see above, under "Performance-related variable remuneration").

An additional remuneration component alongside the target amount for direct remuneration is the contribution to retirement provision, which is to be granted in the amount of 20% to 40% of the fixed salary, along with ancillary benefits, which are to be granted to Management Board members up to a maximum of 10% of the fixed salary. In total, retirement provision and ancillary benefits are thus limited to a maximum of 50% of the fixed salary or 20% of the target amount for direct remuneration. The target amount for direct remuneration (comprising the fixed salary and the target amount for the bonus), the contribution to retirement provision and the ancillary benefits normally comprise all remuneration components and hence the target total remuneration.

Maximum remuneration: The Company's maximum expense for a member of the Management Board can be calculated for each fiscal year on the basis of the fixed salary, the capped annual bonus and the likewise capped retirement provision and ancillary benefits. In addition, in accordance with Section 87a (1) sentence 2 no. 1 of the German Stock Corporation Act, the 2021 Remuneration System specifies an absolute euro figure for the maximum amount of remuneration granted to a Management Board member in a given fiscal year (maximum remuneration). The maximum remuneration is set for the Chairman of the Management Board at €6.4 million per year, for the Deputy Chairman of the Management Board at €4.0 million per year and for the remaining members of the Management Board at €2.2 million per year. This is not the level of remuneration targeted by the Supervisory Board, however, and merely constitutes the absolute upper limit of the total annual remuneration achievable under the remuneration system.

The described remuneration structure applies uniformly to all Management Board positions. In keeping with the principle of collective Management Board responsibility, the targets for Management Board members are generally set on a uniform basis. The Supervisory Board reserves the right to set individual targets for specific Management Board members if it deems it necessary to provide a differential incentive structure among the members of the Management Board. In addition, the remuneration system permits the agreement of benefits for newly appointed members of the Management Board when they take up their position (such as to compensate for benefits foregone on leaving previous employment) and to compensate for currency risks in the case of Management Board members whose habitual place of residence is outside of the eurozone.

A more detailed description of the 2021 Remuneration System, including inter alia the possibility for deviations from its stipulations and for termination related benefits, is available on the Company's website at https://www.kloeckner.com/en/group/management-board/management-board-remuneration.html.

CONSIDERATION OF A RESOLUTION UNDER SECTION 120A (4) OF THE GERMAN STOCK CORPORATION ACT

As the Annual General Meeting will adopt a resolution on the Remuneration Report pursuant to Section 120a of the German Stock Corporation Act for the first time in fiscal year 2022, no information on consideration of such a resolution is included in this report. This will be addressed for the first time in the Remuneration Report for 2022. The Supervisory Board has nevertheless addressed the points of criticism raised with regard to the 2021 Remuneration System (see above in the introduction under the heading "Annual General Meeting vote on the 2021 Remuneration System; Appraisal").

Scope of the new 2021 Remuneration System (grandfathering for existing service contracts) and description of the previous remuneration system

Grandfathering for existing service contracts (Gisbert Rühl, Guido Kerkhoff, John Ganem and Dr. Oliver Falk)

In accordance with the transitional provisions under ARUG II and the Code, the scope of the new 2021 Remuneration System is limited to service contracts entered into subsequent to its adoption (see Section 26j (1) of the Introductory Act to the Stock Corporation Act (EGAktG) in conjunction with Section 87a (2) of the German Stock Corporation Act; rationale with regard to Section G of the Code). The previous remuneration system for members of the Management Board of Klöckner & Co SE therefore applies to the service contracts that were already in place on May 12, 2021 with Guido Kerkhoff, Dr. Oliver Falk, John Ganem and Gisbert Rühl.

The service contract entered into with Guido Kerkhoff in fiscal year 2020 and amended at the beginning of 2021 takes into account and complies with the revised version of the Code as of 2022; it also already takes into account and complies with the requirements of the new 2021 Remuneration System, even though these did not apply at the time of the conclusion of the service contract. The service contracts with Management Board members Dr. Oliver Falk and John Ganem being in place since 2019 are therefore exclusively governed by the Code as of February 7, 2017. These two service contracts have been amended in line with the new 2021 Remuneration System in connection with the planned renewals effective from August 1, 2022. The service contract newly entered into with Bernhard Weiß in the reporting year is already subject to the new 2021 Remuneration System. It complies with all requirements of the remuneration system and hence also with those of the Code.

PREVIOUS REMUNERATION SYSTEM (2016 REMUNERATION SYSTEM)

The previous remuneration system (hereinafter also the "2016 Remuneration System") was approved at the Annual General Meeting on May 13, 2016 with a majority of 87.03% of votes cast and complies with all recommendations of the German Corporate Governance Code as of February 7, 2017.

The 2021 Remuneration System described above is ultimately developed on the basis on the 2016 Remuneration System. The Supervisory Board comprehensively reviewed the 2016 Remuneration System, in particular with respect to the requirements under the new provisions of the German Stock Corporation Act and of the Code, and modified it where necessary. A more detailed description of the 2016 Remuneration System is contained in the Company's annual reports, most recently in the Annual Report 2020 from page 106 onwards, available on the Company's homepage at https://www.kloeckner.com/en/investors/publications.html.

The 2016 Remuneration System likewise consists of non-performance-related and performance-related remuneration. The non-performance-related remuneration comprises the fixed salary, retirement provisions and ancillary benefits. The retirement provision consists in part of defined-benefit and in part of defined-contribution components; like the ancillary benefits, it is uncapped.

The performance-related variable remuneration likewise includes a bonus, the amount of which initially depends on the degree to which certain targets are achieved in a fiscal year. The target annual bonus is subject to the same system as in the 2021 Remuneration System; the Supervisory Board set the targets for target achievement at its discretion, basing them in the past, as in the new system, on financial targets such as EBITDA and operating cash flow as well as on other non-financial targets.

The personal investment component likewise follows the same system as in the 2021 Remuneration System, with the target bonus – to be invested in shares in the Company – most recently in the amount of 51% of the annual bonus (for administrative purposes in the amount of 25.5% of the bonus before deductions). The lock-up period under the 2016 Remuneration System was three years instead of four.

While the 2016 Remuneration System included a similar provision for a discretionary bonus, it did not feature a clawback arrangement.

Remuneration in fiscal year 2021

CURRENT MEMBERS/MEMBERS IN OFFICE IN FISCAL YEAR 2021

a) Description of the remuneration structure

The remuneration structure for members of the Management Board in office in the reporting year is outlined in the following. It should be noted that the new 2021 Remuneration System currently only applies to Bernhard Weiß. As the service contracts with the other Management Board members were entered into prior to the adoption of the aforementioned remuneration system, these service contracts are "grandfathered" and the 2016 Remuneration System continues to apply (see above). The new service contract entered into with Guido Kerkhoff in fiscal year 2020 and amended at the beginning of 2021 already takes into account and complies with the requirements of the new 2021 Remuneration System, even though this did not yet apply at the time of the conclusion of the service contract. The amounts stated below correspond to the contractually agreed annual remuneration; in the event of appointment to or departure from the Management Board during the year, they are therefore reduced pro rata temporis.

Fixed salary: The annual fixed salary for the full reporting year was as follows:

- Guido Kerkhoff (CEO since May 13, 2021): €864,194 (2020: €750,000)
- Gisbert Rühl (left on May 12, 2021): €1,134,000 (2020: €1,090,000)
- Dr. Oliver Falk: €420,000 (2020: €420,000)
- John Ganem: €420,000 (2020: €420,000)
- Bernhard Weiß (member of the Management Board since June 1, 2021): €336,000

Target bonus: The variable annual bonus as target bonus at 100% target achievement (maximum possible target achievement 200%) for the full reporting year was as follows:

- Guido Kerkhoff (CEO since May 13, 2021): €1,278,740 (2020: €1,100,000)
- Gisbert Rühl (left on May 12, 2021): €1,780,000 (2020: €1,620,000)
- Dr. Oliver Falk: €600,000 (2020: €600,000)
- John Ganem: €600,000 (2020: €600,000)
- Bernhard Weiß (member of the Management Board since June 1, 2021): €480,000

The above fixed salary and target bonus figures for Guido Kerkhoff for the reporting year take into account the salary adjustment partway through the year, effective May 13, 2021, upon his appointment as CEO (fixed salary increased from €750,000 to €930,000 per year and target bonus from €1,100,000 to €1,380,000 per year).

John Ganem's service contract includes an indexation clause for his annual bonus to limit effects of potential changes in the US dollar exchange rate. Changes in the exchange rate could thus result in payment of a higher euro amount.

Target amount for direct remuneration: The annual target amount for direct remuneration (fixed salary plus bonus at 100% target achievement) for the full reporting year was as follows:

- Guido Kerkhoff (CEO since May 13, 2021): €2,142,934
- Gisbert Rühl (left on May 12, 2021): €2,914,000 (2020: €2,710,000).
- Dr. Oliver Falk: €1,020,000 (2020: €1,020,000)
- John Ganem: €1,020,000 (2020: €1,020,000)
- Bernhard Weiß (member of the Management Board since June 1, 2021): €816,000

Personal investment component: Members of the Management Board are required to invest the majority of the annual bonus in shares in the Company, which is subject to a lock-up period. The remuneration system that applies to the Management Board members determines the percentage and the length of the lock-up period. The figures are calculated for administrative purposes assuming 50% tax on the gross annual bonus amount.

- Guido Kerkhoff (CEO since May 13, 2021): 60% of the annual bonus (30% of the gross annual bonus), four-year lock-up period
- Dr. Oliver Falk: 51% of the annual bonus (25.5% of the gross annual bonus), three-year lock-up period
- John Ganem: 51% of the annual bonus (25.5% of the gross annual bonus), three-year lock-up period
- Bernhard Weiß (member of the Management Board since June 1, 2021): 60% of the annual bonus (30% of the gross annual bonus), four-year lock-up period

In accordance with the Market Abuse Regulation, the respective share purchases are reported and published as managers' transactions stating the volume and purchase price; all details can be found on the Company's website (https://www.kloeckner.com/en/investors/legal-announcements/managers-transactions.html).

Under the termination agreement entered into between Gisbert Rühl and the Company, the obligation to make a personal investment in shares in the Company was waived for Gisbert Rühl in the reporting year (see below under "Benefits and payments related to the termination of Management Board service").

Discretionary bonus: No extraordinary bonus was awarded for the reporting year (a discretionary bonus was most recently awarded in 2010). The Management Board contracts provide for the possibility of awarding such a bonus, however, with the sum total of the discretionary bonus and annual bonus capped at the above-mentioned maximum amount for the annual bonus.

Ancillary benefits: Ancillary benefits primarily include insurance premiums (accident insurance, travel/baggage insurance, liability insurance, industrial criminal law insurance, general legal expenses insurance and, for John Ganem in the USA, life insurance and disability insurance); with the exception of certain insurance policies for John Ganem in the USA, amounts for group insurance policies are not included in the remuneration tables pursuant to Section 162 of the German Stock Corporation Act. In addition, copayments are provided for health insurance contributions, in the USA on a voluntary basis and in Germany in the form of compulsory employer contributions (only the amounts of voluntary copayments for John Ganem in the USA are accounted for as ancillary benefits, not the compulsory employer contributions for health and long-term care insurance in Germany). Ancillary benefits additionally include private use of a company car, in the case of Gisbert Rühl with a driver (accounted for as remuneration at the taxable benefit-in-kind rate); Management Board member John Ganem receives a cash car allowance in place of a company car. Telecommunication devices provided to members of the Management Board may also be used privately (in line with the tax treatment, no amount for this ancillary benefit is accounted for as remuneration). Finally, the Company pays tax consultancy costs incurred by John Ganem in connection with his service for Klöckner & Co SE.

The Company maintains directors and officers (D&O) insurance, including insurance for members of the Management Board. This is not considered as ancillary benefit for the purposes of the 2021 Remuneration System as it is in the Company's interest. The members of the Management Board do, however, have to bear the deductible required under the German Stock Corporation Act.

Retirement provision: In terms of retirement provision, Gisbert Rühl was provided up to his departure with a defined benefit pension plan in accordance with the rules of Essener Verband, which in his instance provides for a life-long pension with benefits for surviving dependents.

Management Board member John Ganem has a comparable defined-benefit pension plan commensurate with the arrangements applicable to him at the US subsidiary prior to his appointment to the Management Board, which likewise includes a life-long pension. These local arrangements additionally include supplementary defined-contribution components that are likewise included as retirement provision.

Management Board member Dr. Oliver Falk has a defined benefit pension plan in accordance with the rules of Essener Verband (continuation of his pension plan as an employee of Klöckner & Co Deutschland GmbH before his appointment as member of the Management Board), and receives a fixed annual amount of €50,000 as cash compensation for company retirement provision that he must use to provide for his own retirement income (defined-contribution pension plan).

Guido Kerkhoff and Bernhard Weiß receive a fixed annual amount, as cash compensation for company retirement provision, of €350,000 (Guido Kerkhoff; pro rata temporis from May 13, 2021 onwards; prior to that €250,000) and €80,000 (Bernhard Weiß; pro rata temporris from June 1, 2021 onwards) that they must use to provide for their own retirement income (defined-contribution pension plan).

Retirement provision for Management Board members Dr. Oliver Falk and John Ganem will likewise switch to cash compensation for company retirement provision (defined-contribution pension plan) in accordance with the 2021 Remuneration System upon the renewal of their service contracts effective August 1, 2022. Irrespective of this, any obligations in connection with pension benefits granted and earned in the past generally continue to exist.

b) 2021 targets and target achievement

The targets determined for variable remuneration in the reporting year, and the amounts earned in the reporting year (2021 annual bonus) applying the performance criteria previously specified by the Supervisory Board to the figures in the 2021 annual financial statements, are set out in the following description and tables. This solely relates to the variable remuneration for the reporting year of members of the Management Board in office in the reporting year.

As in past years, the Supervisory Board set targets for variable remuneration in fiscal year 2021 on the basis of Group budget figures consisting of EBITDA before material special effects and operating cash flow, placing a special focus for fiscal year 2021 on EBITDA as the key performance indicator for corporate performance. The Supervisory Board supplemented those targets with strategic goals comprising a further increase in digital sales as a percentage of total sales, total sales generated through the Kloeckner Assistant, the earnings impact from digitalization and, as sustainability related target, further reduction in the lost time injury frequency (LTIF) across the Company. Further details are provided in the table below. Target achievement is calculated in each case on a linear basis.

The table below shows the targets for fiscal year 2021:

Target indicator	Target	Notional proportion
EBITDA before special effects	€208 million	50%
Operating cash flow	€93 million	30%
Increase in digital sales as share of total sales (based on Q4 2021)	55%	5%
Sales through Kloeckner Assistant	€1,000 millon	5%
Earnings impact from digitalization	€40 million	5%
Reduction in lost-time accidents (LTIF rate group)	9.0	5%

The resulting target achievement was as follows for the targets in fiscal year 2021:

Criterion and target	Proportional target achievement				
(€ thousand)	Target	Relative Proportion	Actual figure	Target achieve-ment	Notional proportion
EBITDA before special effects	208,418	50%	848,493	407%	204%
Operating cash flow	93,404	30%	– 62,993	– 67%	– 20%
Increase in digital sales as share of total sales (based on Q4 2021)	55%	5%	45.6%	83%	4%
Sales through Kloeckner Assistant	1,000,000	5%	1,050,149	105%	5%
Earnings impact from digitalization	40,000	5%	20,745	52%	3%
Reduction in lost-time accidents (LTIF rate group)	9.0	5%	6.9%	130%	7%
Total					**202%**
Cap					**200%**

(€ thousand)	Target bonus	Earned bonus
Guido Kerkhoff, CEO	1,278	2,556
Dr. Oliver Falk, CFO	600	1,200
John Ganem, CEO Americas[1)]	600	1,200
Bernhard Weiß, CEO Europe since June 1, 2021	280	560
Gisbert Rühl, CEO (unit May 12, 2021)[2)]	651	651

1) The actual amount of variable remuneration for John Ganem may increase due to the contractually agreed indexation clause to compensate for exchange rate changes.
2) 100% target achievement assumed pursuant to terminationagreement.

As a result of the record EBITDA (since the IPO), total target achievement for the reporting year exceeds 200%, hence the cap applies and variable remuneration for the reporting year is 200% of the target bonus. With regard to the operating cash flow financial target the following should be noted: The cash outflow of 305,766,998.45 shown in the Annual Report 2021 and in the 2021 annual financial statements includes effects of €242,773,502.43 from the funding of pension obligations. Operating cash flow was adjusted by this amount when determining target achievement for variable remuneration in 2021, resulting in the figure shown in the above table. That adjustment was made because the funding of pension obligations was not provided for in the budget for the reporting year and was not foreseeable, whereas the target for variable remuneration in 2021 was expressly set on the basis of the budget as it stood at the time. Failing to eliminate the one-off effect from funding pension obligations would result in a large and improper distortion of the variable remuneration figures for 2021. Operating cash flow was therefore adjusted by this one-off effect when determining target achievement. This does not constitute a subsequent adjustment of the target as the target itself is unchanged. The following should be noted regarding target achievement in relation to the earnings impact from digitalization target: The impact of digitalization encompasses all tools in deployment. These include external-facing solutions such as the online shop, EDI and Kloeckner Assistant as well as internal-facing solutions such as the ERP system and accounting, procurement and logistics solutions. The main drivers for the improvement of business process digitalization are concentrated in the sales, procurement and administration functions. As benchmarking for calculation purposes, the average number of full-time equivalents in the three functional areas in 2019 was compared with the average number of full-time equivalents per operating unit in 2021 less savings achieved in 2020 and multiplied by the average normalized personnel expense (excluding virtual stock options and special effects).

c) Remuneration granted and due in 2021 according to Section 162 of the Stock Corporation Act (including relative proportions)

The table below shows the remuneration granted and due – within the meaning of Section 162 of the German Stock Corporation Act – to each of the Management Board members in office in the reporting year, including all fixed and variable remuneration components and their relative proportions.

The figures comprise fixed remuneration (fixed salary, ancillary benefits and cash compensation for retirement provision) earned and paid out in the reporting year, together with variable remuneration components earned in the reporting year, irrespective of whether the latter fall due and are paid out in the fiscal year 2022 now in progress (earned remuneration-based interpretation).

With regard to items included in the amounts shown for ancillary benefits and retirement benefits, please see the information provided under heading a) above. Accordingly, amounts for group insurance policies are not included (with the exception of certain insurance policies for John Ganem in the USA); the same applies for paid compulsory employer contributions for health and long-term care insurance in Germany. Payments in connection with defined contribution plans in the USA are accounted for as retirement contributions, while Section 162 of the German Stock Corporation Act does not require the disclosure of expenses for defined-contribution plans (we nevertheless additionally include such amounts at the bottom of the table for comparability).

Bernhard Weiß received remuneration from the French country organization in the reporting year until the time of his appointment as member of the Management Board (gross amount approximately €196 thousand). That remuneration does not constitute Management Board remuneration within the meaning of Section 162 of the German Stock Corporation Act and is not included in the maximum remuneration figures as it was not paid for service on the Management Board. It is disclosed solely for the purposes of completeness and transparency.

MANAGEMENT BOARD REMUNERATION GRANTED AND DUE IN 2021 UNDER SECTION 162 OF THE STOCK CORPORATION ACT[1)]

	Gisbert Rühl, CEO (until May 12, 2021)				Guido Kerkhoff, CEO since May 13, 2021, Board member since September 1, 2020			
	2020		2021		2020		2021	
(€ thousand)	Amount	Relative Propor-tion	Amount	Relative Propor-tion	Amount	Relative Propor-tion	Amount	Relative Propor-tion
Non-performance-related remuneration components								
Fixed salary	1,090	36%	415	38%	250	32%	864	23%
Retirement contributions/ payments; cash compensation for retirement provision					83	11%	314	8%
Ancillary benefits	40	1%	15	1%	6	1%	13	0%
Performance-related remu-neration components								
One-year variable remunera-tion (annual bonus)[2) 3) 4)]	1,904	63%	651	60%	431	56%	2,556	68%
Total remuneration within the meaning of Section 162 of the German Stock Corporation Act	**3,034**	**100%**	**1,081**	**100%**	**770**	**100%**	**3,747**	**100%**
Expense for defined-benefit pension plans in accordance with IFRS	1,029		1,139		-		-	

	Dr. Oliver Falk, CFO				John Ganem, CEO Americas[5)]			
	2020		2021		2020		2021	
(€ thousand)	Amount	Relative Propor-tion	Amount	Relative Propor-tion	Amount	Relative Propor-tion	Amount	Relative Propor-tion
Non-performance-related remuneration components								
Fixed salary	420	35%	420	25%	420	36%	420	25%
Retirement contributions/ payments; cash compensation for retirement provision	50	4%	50	3%	12	1%	12	1%
Ancillary benefits	16	1%	17	1%	43	4%	40	2%
Performance-related remuneration components								
One-year variable remunera-tion (annual bonus)[2) 3) 4)]	705	59%	1,200	71%	705	60%	1,200	72%
Total remuneration within the meaning of Section 162 of the German Stock Corporation Act	**1,191**	**100%**	**1,687**	**100%**	**1,180**	**100%**	**1,672**	**100%**
Expense for defined-benefit pension plans in accordance with IFRS	109		116		158		204	

(€ thousand)	Bernhard Weiß CEO Europe[6] (since June 1, 2021) 2020 Amount	2020 Relative Propor-tion	2021 Amount	2021 Relative Propor-tion
Non-performance-related remuneration components				
Fixed salary	-	-	196	24%
Retirement contributions/payments; cash compensation for retirement provision	-	-	47	6%
Ancillary benefits	-	-	7	1%
Total remuneration within the meaning of Section 162 of the German Stock Corporation Act				
One-year variable remuneration (annual bonus)[2) 3)]	-	-	560	69%
Total remuneration within the meaning of Section 162 of the German Stock Corporation Act	**-**	**-**	**810**	**100%**
Expense for defined-benefit pension plans in accordance with IFRS	-	-	-	

1) Remuneration earned for Management Board service in the reporting year excluding variable remuneration paid in the reporting year but earned in fiscal year 2020 for fiscal year 2020; 2020 figures pro forma.
2) Variable remuneration is subject to an obligation that it be used in part to purchase shares in the Company as a long-term remuneration component
3) In the case of John Ganem, the calculation is subject to an indexation clause to limit the effects of potential changes in the US dollar exchange rate.
4) Bernhard Weiß was CEO of French Group company Kloeckner Metals France S.A.S. until his appointment to the Management Board of Klöckner & Co SE as of June 1, 2021; his total gross salary earned for that period, including company car and ancillary benefits, amounts to €196 thousand.
5) In addition to his contract as member of the Management Board of Klöckner & Co SE, John Ganem also has a contract as CEO of the US country organization; an offsetting arrangement applies, as a result of which the presentation is uniform.
6) Bernhard Weiß was not a member of the Management Board of Klöckner & Co SE in fiscal year 2020.

d) Remuneration in 2021 on the basis of prior Code tables (benefits granted and benefits received)

In light of the fact that reporting pursuant to Section 162 of the German Stock Corporation Act is provided here for the first time, remuneration for the members of the Management Board in office in the reporting year is shown voluntarily in the following based on the model tables relating to section 4.2.5(3) of the German Corporate Governance Code as of February 7, 2017.

Granted compensation	Gisbert Rühl, CEO (until May 12, 2021)				Guido Kerkhoff, CEO since May 13, 2021; Board member since September 1, 2020			
(€ thousand)	2020	2021	2021 (Min.)	2021 (Max.)	2020	2021	2021 (Min.)	2021 (Max.)
Fixed compensation	1,090	415	415	415	250	864	864	864
Ancillary benefits[1)]	41	15	15	15	89	327	327	327
Total	**1,131**	**430**	**430**	**430**	**339**	**1,191**	**1,191**	**1,191**
One year's variable compensation	1,620	651	651	651	367	1,278	-	2,556
Multi-year variable compensation[2)]								
- Virtual stock option plan	-	-	-	-	-	-	-	-
Total	**2,751**	**1,081**	**1,081**	**1,081**	**706**	**2,469**	**1,191**	**3,747**
Postemployment benefits	1,029	1,139	1,139	1,139	-	-	-	-
Total compensation	**3,780**	**2,220**	**2,220**	**2,220**	**706**	**2,469**	**1,191**	**3,747**

Granted compensation	Dr. Oliver Falk, CFO				John Ganem, CEO Americas			
(€ thousand)	2020	2021	2021 (Min.)	2021 (Max.)	2020	2021	2021 (Min.)	2021 (Max.)
Fixed compensation	420	420	420	420	420	420	420	420
Ancillary benefits[1]	67	67	67	67	55	53	53	53
Total	**487**	**487**	**487**	**487**	**475**	**473**	**473**	**473**
One year's variable compensation[3]	600	600	-	1,200	600	600	-	1,200
Multi-year variable compensation[2]								
- Virtual stock option plan	-	-	-	-	-	-	-	-
Total	**1,087**	**1,087**	**487**	**1,687**	**1,075**	**1,073**	**473**	**1,673**
Postemployment benefits	109	116	116	116	158	204	204	204
Total compensation	**1,196**	**1,203**	**603**	**1,803**	**1,233**	**1,277**	**677**	**1,877**

Granted Compensation	Bernhard Weiß, CEO Europe (since June 1, 2021)			
(€ thousand)	2020	2021	2021 (Min.)	2021 (Max.)
Fixed compensation	-	196	196	196
Ancillary benefits[1]	-	54	54	54
Total	**-**	**250**	**250**	**250**
One year's variable compensation	-	280	-	560
Multi-year variable compensation[2]				
- Virtual stock option plan	-	-	-	-
Total	**-**	**530**	**250**	**810**
Postemployment benefits	-	-	-	-
Total compensation	**-**	**530**	**250**	**810**

1) Includes €314k (2020: €84k) for Guido Kerkhoff, €50k (2020: €50k) for Dr. Oliver Falk and €47k (2020: €0k) for Bernhard Weiß paid in lieu of corporate pension benefits and required to be invested in a private post-retirement scheme.
2) The virtual stock option program was discontinued at the end of 2015; any payouts are based on the exercise of virtual stock options granted until that time. Dr. Oliver Falk and Bernhard Weiß still hold virtual stock options from their service as CEOs of country organizations within the Klöckner Group; benefits received in this regard do not constitute Management Board remuneration and are not included in the table.
3) In the case of John Ganem, the calculation is subject to an indexation clause to limit the effects of potential changes in the US dollar exchange rate.

Proceeds	Gisbert Rühl, CEO (until May 12, 2021)		Guido Kerkhoff, CEO (since May 13, 2021)	
(€ thousand)	2020	2021	2020	2021
Fixed compensation	1,090	415	250	864
Ancillary benefits[1]	41	15	89	327
Total	**1,131**	**430**	**339**	**1,191**
One year's variable compensation	1,904	651	431	2,556
Multi-year variable compensation[2]				
- Virtual stock option plan	-	702	-	-
Total	**3,035**	**1,783**	**770**	**3,747**
Postemployment benefit	1,029	1,139	-	-
Total compensation	4,064	2,922	770	3,747

Proceeds (€ thousand)	Dr. Oliver Falk, CFO 2020	Dr. Oliver Falk, CFO 2021	John Ganem, CEO Americas 2020	John Ganem, CEO Americas 2021
Fixed compensation	420	420	420	420
Ancillary benefits[1)]	67	67	55	53
Total	**487**	**487**	**479**	**472**
One year's variable compensation[3)]	705	1,200	705	1,200
Multi-year variable compensation[2)]				
- Virtual stock option plan	-	-	-	-
Total	**1,192**	**1,687**	**1,184**	**1,672**
Postemployment benefit	109	116	158	204
Total compensation	**1,301**	**1,803**	**1,342**	**1,876**

Proceeds (€ thousand)	Bernhard Weiß, CEO Europe (since June 1, 2021) 2020	Bernhard Weiß, CEO Europe (since June 1, 2021) 2021
Fixed compensation	-	196
Ancillary benefits[1)]	-	54
Total	**-**	**250**
One year's variable compensation	-	560
Multi-year variable compensation[2)]		
- Virtual stock option plan	-	-
Total	**-**	**810**
Postemployment benefit	-	-
Total compensation	**-**	**810**

1) Includes €314k (2020: €84k) for Guido Kerkhoff, €50k (2020: €50k) for Dr. Oliver Falk and €47k (2020: €0k) for Bernhard Weiß paid in lieu of corporate pension benefits and required to be invested in a private post-retirement scheme.
2) The virtual stock option program was discontinued at the end of 2015; the payouts are based on the exercise of virtual stock options granted until that time. Dr. Oliver Falk and Bernhard Weiß still hold virtual stock options from their service as CEOs of country organizations within the Klöckner Group; benefits received in this regard do not constitute Management Board remuneration and are not included in the table.
3) In the case of John Ganem, the calculation is subject to an indexation clause to limit the effects of potential changes in the US dollar exchange rate.

e) Fixed and variable remuneration including relative proportions, and explanatory notes on conformity with the applicable remuneration system

Relative Proportions

The relative proportions accounted for by each remuneration component are shown in the table under heading c) above.

Conformity with the applicable remuneration system

The remuneration is in conformity with the applicable remuneration system, although it should be noted that Guido Kerkhoff, Dr. Oliver Falk and John Ganem continue to be subject to the prior 2016 Remuneration System under the grandfathering arrangement for those members. The 2016 Remuneration System did not provide for fixed ratios between or any caps for individual remuneration components as the cap was based on the maximum 200% target achievement. The service contract entered into with Guido Kerkhoff in fiscal year 2020 and amended at the beginning of 2021 already takes into account and complies with the requirements of the new 2021 Remuneration System, even though this did not yet apply at the time of the conclusion of the service contract and therefore also does not apply to date.

In particular, where applicable, the requirements of the 2021 Remuneration System are complied with as regards the ratio of fixed and variable remuneration to the target amount for direct remuneration (40:60, excluding ancillary benefits and retirement provision), as are the requirements on the ratios of the retirement provision and ancillary benefit amounts to the fixed salary (retirement provision: 20%–40%; ancillary benefits: 10% maximum); no remuneration has been granted that is not covered by the applicable remuneration system.

To the extent that Management Board members Dr. Oliver Falk and John Ganem and former CEO Gisbert Rühl continued to be granted defined-benefit pension benefits in the reporting year, those benefits were based (in line with the remuneration system applicable at the time) on contractual arrangements made prior to the adoption of and are not subject to the new 2021 Remuneration System. The requirements on the maximum pension benefit and ancillary benefit amounts relative to the fixed salary do not apply in this connection for the same reason. Similarly, the termination benefits granted to Gisbert Rühl, part of which were paid out subsequent to May 12, 2021, were provided in fulfillment of the termination agreement entered into prior to May 12, 2021; these too are subject to the prior remuneration system and do not constitute a deviation from the new 2021 Remuneration System.

f) Promotion of the Company's long-term development

In the sense of an LTI component, the requirement for a majority of variable remuneration to be invested in shares in the Company with a specified lock-up period ties the value of benefits received by the members of the Management Board to the share price and, because of the four-year lock-up period, to the long-term development of the Company. This aligns Management Board performance goals even more closely with shareholder interests. The amounts and percentages for the required personal investment in shares for the reporting year are shown in the table below:

PERSONAL INVESTMENT 2021[1)]

(€ thousand)	Gisbert Rühl, CEO (until May 12, 2021)[3)]	Guido Kerkhoff, CEO since May 13, 2021, Board member since September 1, 2020	Dr. Oliver Falk, CFO	John Ganem, CEO Americas	Bernhard Weiß, CEO Europe (since June 1, 2021)
Performance-related remuneration, gross	651	2,556	1,200	1,200	560
Personal investment amount	-	767	306	306	168
Personal investment amount, gross[2)]	-	1,534	612	612	336
Personal investment percentage, gross[2)]	-	60%	51%	51%	60%

1) On the basis of remuneration granted and due in 2021 under Section 162 of the Stock Corporation Act.
2) Gross amount of personal investment calculated assuming a 50% tax and social insurance burden.
3) The termination agreement entered into with Gisbert Rühl exempted him from the personal investment obligation for fiscal year 2021.

The targets governing the amount of variable remuneration are also based on long-term strategic developments (such as growth and milestones in digitalization and under the multi-year strategy). As a result, remuneration is geared in several respects to promotion of the Company's long-term development.

g) Comparative analysis of annual changes in Management Board remuneration, the Company's financial performance and average employee remuneration

The table below shows the percentage change in the remuneration of members of the Management Board in comparison to the financial performance of Klöckner & Co SE and to changes in average employee remuneration on a full-time equivalent basis.

The financial performance of Klöckner & Co SE is presented on the basis of the following key performance indicators (KPIs): (i) net income (or net loss) of Klöckner & Co SE, (ii) EBITDA before material special effects and (iii) operating cash flow. The latter two KPIs are also major determinants of variable remuneration for the Management Board.

Average employee remuneration is determined on a full-time equivalent basis for two groups: (i) senior management worldwide (management level 1, meaning CEOs and CFOs of country organizations and heads of corporate departments at Klöckner & Co SE) and (ii) the total workforce worldwide.

Management Board Compensation[1]	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Current members of the Management Board					
Gisbert Rühl[2]	2%	– 6%	26%	8%	– 41%
Guido Kerkhoff[3]	-	-	-	-	387%
Dr. Oliver Falk	-	-	-	143%	41%
John Ganem	-	-	-	147%	40%
Bernhard Weiß[4]	-	-	-	-	-
Former members of the Management Board					
Gisbert Rühl[2]					
Bill Partalis	– 1%	– 93%	5%	– 2%	– 3%
Financial performance in € million					
Net income Klöckner & Co SE	171%	– 107%	– 613%	94%	3233%
EBITDA before material special effects	12%	4%	– 46%	– 10%	664%
Cash flow from operating activities	8%	– 24%	240%	– 21%	– 290%
Average employee remuneration on full-time equivalent basis					
Senior management worldwide (Level 1)[5]	2%	– 1%	– 19%	4%	9%
Total workforce worldwide	2%	– 2%	7%	3%	8%

1) Total remuneration within the meaning of Section 162 (1) sentence 1 of the German Stock Corporation Act (fiscal years 2016 to 2020 pro forma).
2) Gisbert Rühl left the Management Board as of May 12, 2021; the total remuneration for 2021 relates to the period up to that date.
3) Guido Kerkhoff was appointed to the Management Board as of September 1, 2020; the total remuneration for 2020 relates to the period subsequent to his appointment.
4) Bernhard Weiß was appointed to the Management Board as of June 1, 2021; no Management Board remuneration is therefore shown for 2020 and the total remuneration for 2021 relates to the period subsequent to his appointment.
5) The comparison group comprises CEOs and CFOs of country organizations and heads of corporate departments at Klöckner & Co SE. The calculation is based in each case on earned remuneration, including variable remuneration for the year concerned even if paid out in the subsequent year (in line with the figures for Management Board remuneration).

h) Shares and stock options granted or awarded

No shares or stock options were granted or awarded to members of the Management Board in the reporting year. However, the Management Board members in office are required – in the sense of a long-term incentive (LTI) remuneration component – to invest the majority of the variable remuneration for the reporting year in shares in the Company ("personal investment" – see under heading f) above).

In addition, former Management Board members Bill Partalis, Karsten Lork, Marcus A. Ketter and Gisbert Rühl received payments in the reporting year in connection with virtual stock options (VSOs) granted in the past. However, those VSOs are not stock options within the meaning of Section 162 (1) sentence 2 No. 3 of the German Stock Corporation Act and are not to be separately disclosed in the Remuneration Report. As the VSOs were earned in past fiscal years, the payments in the reporting year are also not to be considered "remuneration granted and due" within the meaning of Section 162 of the German Stock Corporation Act and are not included in the tables pursuant to Section 162 of the German Stock Corporation Act under heading c), heading g) and "Former members of the Management Board." However, payments to Gisbert Rühl up to and including May 2021 are shown under heading d) above in the table of remuneration on the basis of prior Code table.

The VSO program was discontinued at the end of 2015. No VSOs exist beyond those paid out in the reporting year. For further details on the VSO program, please see the relevant information in the Notes and the Annual Report of the Company for fiscal year 2015.

i) Clawback of variable remuneration components

No clawback of variable remuneration components took place in the reporting year.

j) Maximum remuneration

The maximum remuneration specified in the 2021 Remuneration System, defined in the 2021 Remuneration System as an absolute euro figure for the maximum amount of remuneration granted to a Management Board member in a given fiscal year, applied solely to Bernhard Weiß in the reporting year and was complied with (for Bernhard Weiß as an ordinary member of the Management Board, the maximum remuneration was €2.2 million, or pro rata temporis €1.28 million). Reference is made in this regard to the table under heading k). This shows also the ratios of retirement and ancillary benefits to the fixed salary, as described under heading e).

The 2021 Remuneration System and the maximum remuneration specified in it do not apply to the remaining members of the Management Board (see above, under "Grandfathering arrangement for existing service contracts (Gisbert Rühl, Guido Kerkhoff, John Ganem and Dr. Oliver Falk)"). The 2016 Remuneration System instead provides for variable remuneration to be capped at 200% of the target bonus; this requirement was met for all remaining members of the Management Board.

k) Deviations from the 2021 Remuneration System

To the extent that the 2021 Remuneration System applied, no departures from it arose in the reporting year subsequent to the adoption of the new remuneration system on the day of the Annual General Meeting resolution. With regard to the requirements on maximum remuneration (see j) above) and on the ratio of retirement and ancillary benefits to the fixed salary (see e) above), this is additionally evident from the table below

REQUIREMENTS UNDER THE 2021 REMUNERATION SYSTEM[1)]

(€ thousand)	Gisbert Rühl, CEO (until May 12, 2021)	Guido Kerkhoff, CEO (since May 13, 2021)	Dr. Oliver Falk, CFO	John Ganem, CEO Americas	Bernhard Weiß, CEO Europe[2) 3)]
Maximum remuneration					
Maximum remuneration under the remuneration system					1,283
Total remuneration 2021					810
Ratio of non-performance-related remuneration components of target amount for direct remuneration in 2021[5)]					
Ratio of ancillary benefits to fixed salary (%) (stipulated: 10%)	-	-	-	-	4%
Ratio of retirement benefits to fixed salary (%) (stipulated: 20-40%)[4)]	-	-	-	-	24%

1) The requirements under the 2021 Remuneration System applied only to Bernhard Weiß in the reporting year.
2) Maximum remuneration for Bernhard Weiß calculated pro rata temporis (full-year maximum remuneration for an ordinary member of the Management Board: €2,200,000).
3) Total remuneration for Bernhard Weiß excluding remuneration from French country organization prior to appointment as member of the Management Board.
4) Under the requirements of the remuneration system, retirement provision for Bernhard Weiß consists exclusively of cash compensation tied to the purpose of servicing retirement provision.
5) The underlying figures are to be found in the table "Remuneration granted and due according to Section 162 of the Stock Corporation Act".

No use was made in the reporting year of the authorization for temporary deviations provided in the 2021 Remuneration System.

l) Third-party benefits; intra-Group offices

No member of the Management Board was granted or awarded benefits by a third party in the reporting year for service on the Management Board. The members of the Management Board were not granted any additional remuneration for any offices held within the Klöckner Group (see under heading c) above).

m) Benefits in the event of early termination of Management Board service

Management Board service contracts provide for compensation in the event of early termination other than for cause. This compensation depends on the remaining term of the service contract, but is capped at two years' annual remuneration (severance payment cap). The existing service contracts do not provide for a special right of termination in the event that control of 30% of voting rights in the Company is exceeded (change-of-control clause).

Management Board members are subject to a 24-month post-contractual non-competition covenant compensated for by payment of half of their most recent total remuneration (fixed salary plus bonus at 100% target achievement) p.a. unless the Company waives the clause. The Management Board contracts already provide for any severance payment to be deducted from such amounts. The personal investment requirement is waived in this instance.

No changes to these arrangements were made in the reporting year. With regard to the agreement entered into with Gisbert Rühl on the termination of his service contract before the end of his term, please see the information in the section headed “Benefits and payments related to the termination of Management Board service”.

n) Benefits in the event of regular termination of Management Board service (retirement provisions)

To the extent that retirement provisons for individual members of the Management Board in office in the reporting year comprise benefits subsequent to regular termination of Management Board service, their present value and the Company's expense in this regard during the reporting year (service cost in accordance with IFRS) are presented in the table below.

PENSION COMMITMENTS FOR MANAGEMENT BOARD MEMBERS IN OFFICE IN THE REPORTING YEAR – PRESENT VALUES AND EXPENSE AMOUNTS[1)]

(in €)	Reporting date	Present value[2)]	Service cost 2021[2)]
Gisbert Rühl	Dec. 31, 2021	18,836,675	1,139,370
Dr. Oliver Falk	Dec. 31, 2021	6,750,248	115,500
John Ganem	Dec. 31, 2021	3,012,248	203,609
Bernhard Weiß	Dec. 31, 2021	-	-

1) No change in benefits in the reporting year.
2) IFRS amount.

Aside from the above (i.e., with the exception of Dr. Oliver Falk and John Ganem), the members of the Management Board in office solely receive amounts for private retirement provision in accordance with their service contracts (cash compensation for retirement provision). Benefits in the event of regular termination of Management Board service are no longer provided. The service contracts with Management Board members Dr. Oliver Falk and John Ganem switch to the purely defined-contribution retirement benefits system with cash compensation effective August 1, 2022.

o) Benefits and payments related to the termination of Management Board service in the reporting year (applies only to Gisbert Rühl in the reporting year)

Long-serving CEO Gisbert Rühl left the Company on May 12, 2021 by mutually agreed termination of his service contract, which originally ran to December 31, 2021. It was agreed that the Company would make payments as follows: The fixed salary was paid in the regular amount pro rata temporis and the bonus was calculated pro rata temporis until the departure of Gisbert Rühl on the basis of the target bonus (i.e., at 100% target achievement): 650,752.68 €. This amount was paid out on June 1, 2021; there was no requirement to purchase shares in Klöckner & Co SE (personal investment). For the remaining term of his service contract, Gisbert Rühl received a severance payment of €1,848,666.66, corresponding to the pro rata fixed salary and the pro rata bonus (target bonus, i.e., at 100% target achievement). The severance payment was likewise paid out on June 1, 2021. In addition, Gisbert Rühl was allowed to continue using his company car until the end of May 2021 (benefit in kind in the amount of €1,035.28). With regard to benefit amounts of retirement and surviving dependents' benefits, Gisbert Rühl was placed in the same position as if he had continued to serve as CEO of the Company to the end of his regular contract term, i.e., until December 31, 2021. This did not result in any additional liability for the Company. Pension reinsurance entitlements were assigned to Gisbert Rühl.

FORMER MEMBERS OF THE MANAGEMENT BOARD

Remuneration granted and due to former members of the Management Board (other than those who left office prior to January 1, 2012) for the reporting year pursuant to Section 162 of the German Stock Corporation Act is shown in the table below.

	Bill Partalis (until December 31, 2017)		Gisbert Rühl, CEO (until May 12, 2021)	
(€ thousand)	Amount	Relative Proportion	Amount	Relative Proportion
Retirement benefits/pensions	94	100%	331	15%
Severance payments	-	-	1,851	85%
Total	**94**	**100%**	**2,182**	**100%**

In the reporting year, total compensation of €124 thousand was paid to other former members of the Management Board (2020: €124 thousand). Provision for pension obligations to former members of the Board of Management and their surviving dependents amount under IFRS to €8,450 thousand (2020: €9,030 thousand).

Target setting for 2022

ASSESSMENT OF APPROPRIATENESS

Criteria with respect to the appropriateness of Management Board remuneration include an individual Management Board member's own tasks and performance, the enterprise's business situation, earnings and future prospects as well as the extent to which the remuneration is in line with usual levels of industry peers and the remuneration structure within the Company. Both positive and negative developments are taken into account when determining performance-related remuneration components. Remuneration is set overall to be internationally competitive and to give incentives geared to the Company's sustainable growth and a sustained increase in enterprise value in a dynamic environment.

In setting the 2021 Remuneration System and the targets and target total remuneration for 2022, the Supervisory Board applied horizontal benchmarking based inter alia on an independently compiled study of remuneration paid to regular management board members and CEOs at other companies. Due to a lack of comparable German companies in the steel distribution industry, other wholesalers and comparable international companies were included in the analysis. Specifically, the peer group used consisted of German, SDAX®-listed companies of comparable size (sales and workforce), the SDAX® average and international peer companies. In addition, vertical benchmarking was carried out against the remuneration for senior management (management level 1) and the Group workforce as a whole (in both cases worldwide).

The Supervisory Board, through the Presidium, regularly reviews appropriateness and structure of the currently applied remuneration system (components and fixed and variable remuneration amounts) and with a view to any need for adjustment. The appropriateness of Management Board remuneration relative to each Management Board member's tasks and performance, to the enterprise's situation and to usual levels of remuneration is additionally reviewed annually when setting the target total remuneration for the next year.

TARGETS FOR FISCAL YEAR 2022

The Supervisory Board set the targets for fiscal year 2022 at its December meeting in the reporting year. In conformity with the 2021 Remuneration System, it set and weighted both financial and non-financial targets.

a) Financial targets

The financial targets relate to EBITDA before material special effects and operating cash flow and are based on the Group budget, although the EBITDA targets have been increased above the budget figures. As in the reporting year, EBITDA before material special effects has a weighting of 50% and operating cash flow a weighting of 30%.

b) Non-financial targets

The Supervisory Board based the non-financial targets on three focal areas:

For the strategic component, the focus is once again placed on digitalization. The targets set here – with a weighting of 2.5% each – are, firstly, digital sales in relation to total sales and, secondly, sales automation measured by the share of "zero-touch" orders (measured by the share of fully automated orders processed via digital channels). Two further focal areas relate to the aspect of sustainability (environmental, social and governance (ESG)) dimension: reduction in CO2 emissions – which comes under the environmental category but is also part of Group strategy – and employee-related targets. The specific targets for this purpose are as follows, with a weighting of 5% each: Reduction in CO2 emissions, employee satisfaction as measured in the Group-wide employee survey and further reduction in the lost time injury frequency (LTIF) rate throughout the Group. These non-financial targets are specified with clear and measurable criteria.

The total weighting of the non-financial targets is therefore 20%, which is within the range specified in the remuneration system.

TARGET AMOUNT FOR DIRECT REMUNERATION AND TARGET TOTAL REMUNERATION FOR FISCAL YEAR 2022

Also at its December meeting in the reporting year, the Supervisory Board set the target amount for direct remuneration and target total remuneration for fiscal year 2022, as set out in the following. The Supervisory Board based the figures for retirement provisions and ancillary benefits on reasonable estimates; the final figures for fiscal year 2022 may therefore differ from those estimates.

MANAGEMENT BOARD TARGET REMUNERATION FOR FISCAL YEAR 2022[1)]

(€ thousand)	Guido Kerkhoff	Dr. Oliver Falk	John Ganem	Bernhard Weiß
Fixed salary[2)]	930	439	439	336
One-year variable compensation (annual bonus)[2)]	1,380	638	638	480
Target amount for direct remuneration	**2,310**	**1,077**	**1,077**	**816**
Ancillary benefits	13	16	43	9
Retirement provisions (pension benefits, cash compensation and other contribution payments)	350	207	207	80
Target total remuneration	**2,673**	**1,300**	**1,327**	**905**

1) The forecast target remuneration was prepared in November 2021; it includes rounding and is partly based on assumptions and estimates; the final figures for fiscal year 2022 may consequently differ.
2) The fixed salary and bonus for Dr. Oliver Falk and John Ganem include a salary increase from August 2022 under the contract renewal then entering into force.

Where applicable, requirements as to the ratio of fixed and variable remuneration to the target amount for direct remuneration for fiscal year 2022 are complied with (40:60, excluding ancillary benefits and retirement provisions), as are the requirements on the ratios of retirement benefit and ancillary benefit amounts to the fixed salary (retirement provisions: 20–40%; ancillary benefits: 10% maximum).

8.2 Supervisory Board remuneration

Remuneration system for the Supervisory Board
The structure and amount of remuneration paid to Supervisory Board members are governed by Section 14 of the Articles of Association, which are published on the Company's website.

While members of the Management Board also receive performance-related remuneration components, remuneration for the members of the Supervisory Board is structured entirely as fixed remuneration. This consists mainly of a fixed remuneration component (as basic remuneration), which is paid pro rata temporis in the event of personnel changes during the fiscal year. Attendance fees are also paid; reasonable cash expenses and value added tax are reimbursed. The Company covers the cost of external training for Supervisory Board members via expense accounts. The fixed remuneration is €40,000 per fiscal year. The Chairman of the Supervisory Board receives two-and-a-half times, his Deputy one-and-a-half times and the Chairman of the Audit Committee one-and-a-quarter times the fixed remuneration. The attendance fee is €2,000 per meeting. The Chairman of the Supervisory Board and any Chairman of a Supervisory Board committee each receive two-and-a-half times this amount and their deputies one-and-a-half times this amount. As the remuneration is fixed, no cap or maximum remuneration amount is to be specified.

In addition, in the Company's interest, the members of the Supervisory Board are included in D&O insurance subject to a deductible to be borne by each member of the Supervisory Board (corresponding to the deductible for the Management Board under the German Stock Corporation Act). Members of the Supervisory Board are free to insure the deductible.

A detailed description of the remuneration system for the Supervisory Board is available on the Company's website at https://www.kloeckner.com/en/group/supervisory-board.html

As is required for listed companies in the German Stock Corporation Act as amended by the Act Implementing the Second Shareholder Rights Directive (ARUG II), the remuneration system for the members of the Supervisory Board was submitted for resolution by the Annual General Meeting on May 12, 2021. The substance of the existing remuneration system was retained, being considered appropriate and fit for purpose. The Annual General Meeting confirmed the new remuneration system on May 12, 2021 with a majority of 99.54% of votes cast. The Supervisory Board consequently sees no cause to modify the remuneration system submitted to the Annual General Meeting, but will continue to review it at regular intervals. Under the German Stock Corporation Act as amended by ARUG II, the Annual General Meeting must adopt a resolution on the remuneration system for the members of the Supervisory Board at least once every four years. The next such resolution must therefore be adopted no later than 2025.

As the Annual General Meeting will adopt a resolution on the Remuneration Report pursuant to Section 120a of the German Stock Corporation Act for the first time in fiscal year 2022, no information on compliance with such a resolution is included in this report. This will be addressed for the first time in the Remuneration Report for 2022.

Remuneration in fiscal year 2021

REMUNERATION GRANTED AND DUE (INCLUDING RELATIVE PROPORTIONS)

Under Section 14 (5) of the Company's Articles of Association, the fixed remuneration and attendance fees fall due after the end of the Annual General Meeting that receives or decides on the approval of the consolidated financial statements for the relevant fiscal year. The table below shows, for each individual Supervisory Board member, the remuneration earned in the reporting year by the members of the Supervisory Board which falls due after the end of the Annual General Meeting in 2022.

SUPERVISORY BOARD REMUNERATION GRANTED AND DUE IN 2021 UNDER SECTION 162 OF THE STOCK CORPORATION ACT[1) 2)]

(in €)	Basic remuneration (fixed remuneration)	% of total remuneration	Attendance fees (fixed remuneration)	% of total remuneration	Total
Prof. Dr. Dieter H. Vogel	100,000	69	45,000	31	145,000
Dr. Ralph Heck	60,000	77	18,000	23	78,000
Prof. Dr. Karl-Ulrich Köhler until May 12. 2021[1)]	16,667	68	8,000	32	24,667
Prof. Dr. Tobias Kollmann	40,000	83	8,000	17	48,000
Prof. Dr. Friedhelm Loh	40,000	74	14,000	26	54,000
Uwe Röhrhoff since May 12, 2021[2)]	26,667	69	12,000	31	38,667
Ute Wolf	50,000	62	31,000	38	81,000
Supervisory Board	**333,333**	**71**	**136,000**	**29**	**469,333**

1) Remuneration earned for Supervisory Board service in the reporting year (paid out after the Annual General Meeting in fiscal year 2022, excluding remuneration earned in fiscal year 2020 and paid out in the reporting year).
2) Remuneration is paid plus any value added tax to be remitted in Germany, or value added tax is reimbursed by the Company; in the case of Dr. Ralph Heck, the withholding tax payable in Switzerland is retained out of the stated amount.

Supervisory Board remuneration pursuant to Section 314 (1) No. 6 of the German Commercial Code (consolidated financial statements) and Section 285 No. 9 of the German Commercial Code (single-entity financial statements), totaled €469,333 in 2021 (2020: €473,000).

No remuneration or benefits for services rendered on an individual basis – particularly consulting or agency services – were granted to Supervisory Board members in the year under review. Expenses were reimbursed within the above-mentioned limits.

No remuneration is paid in shares or stock options. As the remuneration consists entirely of fixed components, no variable remuneration components were clawed back in the reporting year.

EXPLANATORY NOTES ON CONFORMITY WITH THE REMUNERATION SYSTEM, PROMOTION OF THE COMPANY'S LONG-TERM DEVELOPMENT AND APPLICATION OF THE PERFORMANCE CRITERIA

The requirements of the remuneration system were complied with in the reporting year. As the remuneration is entirely fixed (fixed/basic remuneration, attendance fees and reimbursement of expenses), no cap or maximum remuneration amount is necessary. For the same reason, it is not necessary to describe the application of any performance criteria. The remuneration system for members of the Supervisory Board comprising (fixed) basic remuneration and attendance fees with appropriate multiples for chairpersons and deputy chairpersons accords with standard market practice at comparable companies in Germany. The Supervisory Board considers the level of remuneration to be appropriate. A remuneration system of this kind, which is in line with market practice and provides for appropriate remuneration levels, enables the Company to attract and retain suitable candidates for the office of a Supervisory Board member. The remuneration is intended to appropriately remunerate the members of the Supervisory Board for their careful and conscientious supervision of the Management Board. In this way, it promotes the corporate strategy and the Company's long-term development.

COMPARATIVE ANALYSIS OF ANNUAL CHANGES IN SUPERVISORY BOARD REMUNERATION, THE COMPANY'S FINANCIAL PERFORMANCE AND AVERAGE EMPLOYEE REMUNERATION

The table below shows the percentage change in the remuneration of members of the Supervisory Board in comparison to the financial performance of Klöckner & Co SE and changes in average employee remuneration on a full-time equivalent basis.

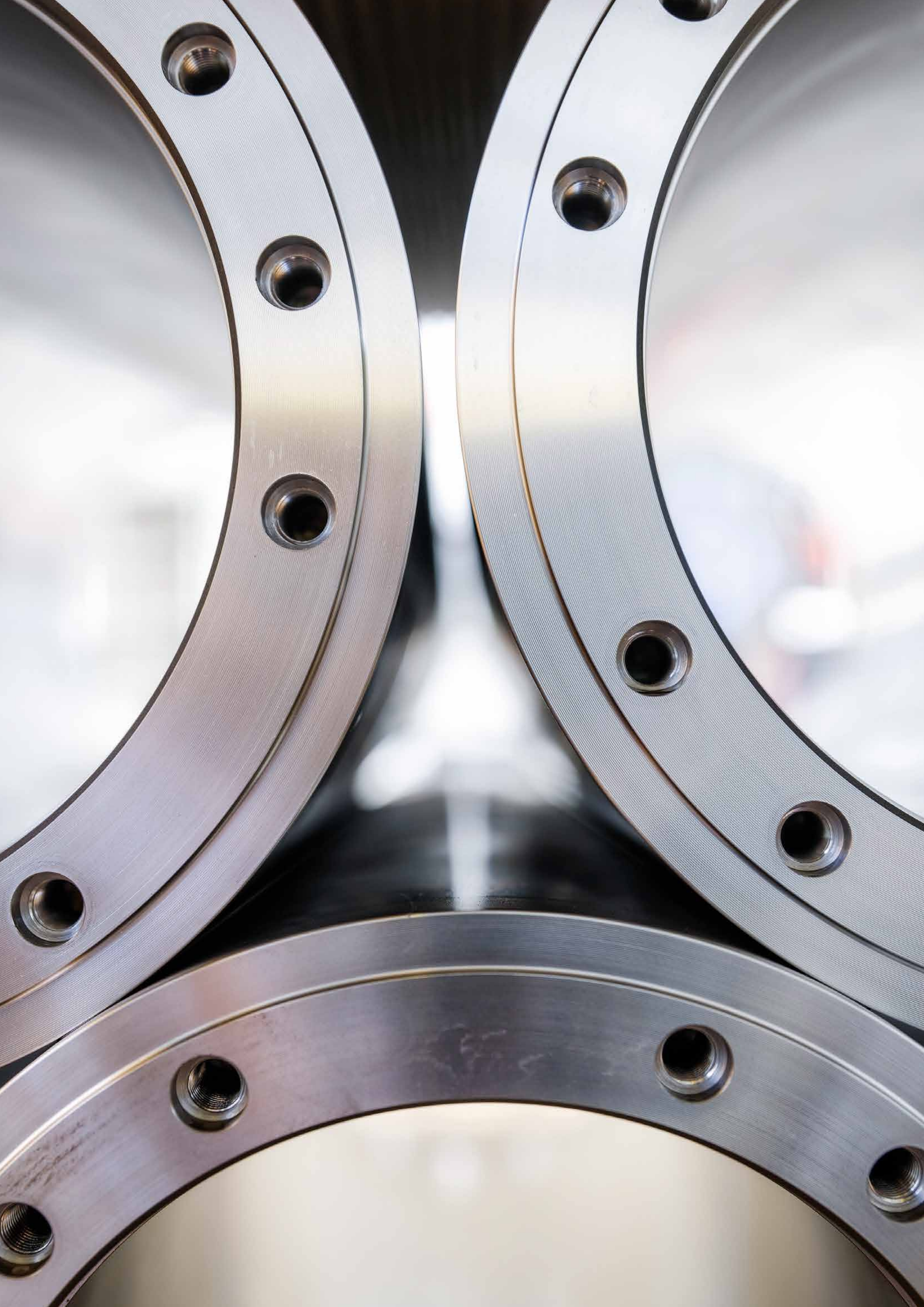
As in the comparative analysis of remuneration for members of the Management Board, the financial performance of Klöckner & Co SE is presented on the basis of the following key performance indicators: (i) net income (or net loss) of Klöckner & Co SE, (ii) EBITDA before material special effects and (iii) operating cash flow.

Average employee remuneration is determined, as in the comparative analysis of remuneration for members of the Management Board, on a full-time equivalent basis for two groups: (i) senior management (management level 1) worldwide and (ii) the total workforce (excluding senior management) worldwide. Accordingly, for further details, please refer to the information in the report on Management Board remuneration.

COMPARATIVE ANALYSIS OF ANNUAL CHANGES IN SUPERVISORY BOARD REMUNERATION PURSUANT TO SECTION 162 (1) NO. 2 GERMAN STOCK CORPORATION ACT (AKTG)

Supervisory Board remuneration[1]	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021
Current members of the Supervisory Board					
Prof. Dr. Dieter H. Vogel (Chairman)	0%	– 11%	20%	– 13%	– 3%
Dr. Ralph Heck (Deputy Chairman) (since May 16, 2018)	-	-	60%	– 8%	0%
Prof. Dr. Karl-Ulrich Köhler (from May 13, 2016 to May 12, 2021)	55%	– 10%	19%	– 9%	– 57%
Prof. Dr. Tobias Kollmann	4%	– 8%	13%	– 4%	– 4%
Prof. Dr. Friedhelm Loh	48%	– 17%	20%	– 10%	-
Ute Wolf (since May 12, 2017)	-	44%	15%	– 8%	– 2%
Uwe Röhrhoff (Deputy Chairman May 12, 2017 to May 16, 2018); ordinary member since May 12, 2021	-	– 40%	– 100%	-	-
Earnings performance in € million					
Net income of Klöckner & Co SE	171%	– 107%	– 613%	94%	3233%
EBITDA before material special effects	12%	4%	– 46%	– 10%	664%
Operating cash flow	8%	– 24%	240%	– 21%	– 290%
Average employee remuneration on full-time equivalent basis					
Senior management worldwide (Level 1)[2]	2%	– 1%	– 19%	4%	9%
Total workforce worldwide	2%	– 2%	7%	3%	8%

1) Total remuneration within the meaning of Section 162 (1) sentence 1 of the German Stock Corporation Act (fiscal years 2016 to 2020 pro forma).
2) The comparison group comprises CEOs and CFOs of country organizations and heads of corporate departments at Klöckner & Co SE. The calculation is based in each case on earned remuneration, including variable remuneration for the year concerned even if paid out in the subsequent year (in line with the figures for Management Board remuneration).



SUSTAINABILITY REPORTING

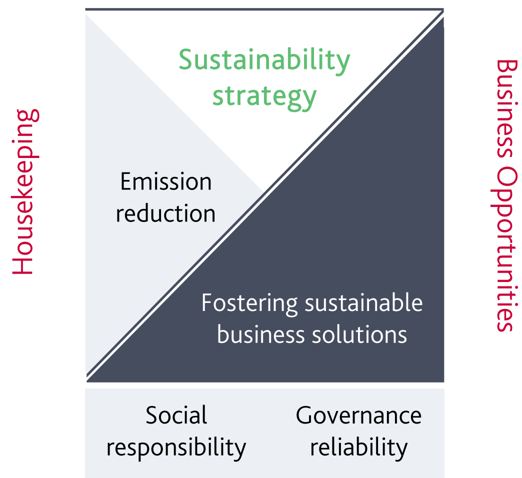
of Klöckner & Co SE

Klöckner & Co SE sustainability reporting 2021

Klöckner & Co is one of the largest producer-independent distributors of steel and metal products worldwide. As we are not tied to any particular steel producer, customers benefit from our centrally coordinated procurement and wide range of national and international sourcing options from around 60 key suppliers across the globe. These include the world's largest steel producers. Responsible conduct plays a central role in relation to our business model and our self-perception as a tradition-rich company. For us, responsibility means aligning all our corporate actions around good ethical behavior, social responsibility, environmental compatibility as well as commercial success. This ethos is enshrined in our Group-wide Klöckner & Co principles and values, which ensure that we share a common understanding and provide specific guidance for our conduct on a day-to-day basis. Sustainability is an issue of special importance at every link in the steel value chain. Although the steel industry's large environmental impact has already shrunk considerably in recent years and new technologies are rapidly being developed, production in particular is still associated with high levels of resource use. However, we as a distributor and important link in the value chain also see it as our duty to continuously improve processes in order to minimize the effects of our business activities.

Our approximately 7,200 employees apply their skills and enthusiasm every day to meeting our customers' needs and wishes. We provide customers with an optimized, end-to-end solution from procurement through logistics to prefabrication, including individual delivery and 24-hour service-processes we are increasingly digitalizing and automating. For example, we use a variety of digital tools and portals to enable us to provide our customers and business partners with a broader spectrum of steel and metal products as well as services. Through our distribution and logistics network comprising around 140 sites in 13 countries, both in Europe and in the USA, we serve more than 100,000 customers. Concentrated mainly in the construction as well as the machinery and mechanical engineering industries, our customer base consists primarily of small to medium-sized steel and metal consumers, but includes larger ones as well (for more in-depth information about Klöckner & Co's business model, see page 31 of the management report).

Sustainability strategy



Building on the “Klöckner & Co 2025: Leveraging Strengths” strategy, Klöckner & Co aims to evolve into the leading digital one-stop-shop platform for steel, other materials and processing services in Europe and America, and to play a pioneering role in the sustainable steel industry. We view the strongly increasing environmental awareness as an extraordinary opportunity. We see numerous ways to rethink existing solutions and replace them with more sustainable alternatives. This calls for pioneers who are willing to generate innovations that make our value creation more sustainable. Under the “Klöckner & Co 2025: Leveraging Strengths” strategy, the Company has made sustainable solutions an integral part of its business model and is building a sustainable range of products and services that will play an important role in the circular economy of the future.

Successful digitalization and the rollout of platforms are pivotal to the reduction of carbon emissions as they make it possible to better anticipate future steel demand and further shrink the emissions footprint in logistics. Data management and automation minimize intransparency and make for efficient resource management, thus benefiting the environment in the long term. With its climate ambitions, Klöckner & Co is driving the potential for innovation throughout the value chain, which is of equal advantage to all market players.

Developing sustainable business solutions

On the way to a sustainable steel industry, Klöckner & Co assumes social responsibility while simultaneously leveraging the strategic opportunities presented by decarbonization. We are working on creating a new portfolio of sustainable steel that is produced with no emissions, thus establishing ourselves as pioneers of a sustainable steel industry. By expanding our range of sustainable products and services in this way, the Company is seizing the strategic opportunity to integrate new, attractive “green” steel into our business model.

One significant milestone in the provision of sustainable products and services has already been achieved: Klöckner & Co has entered into a partnership with the Swedish start-up H2 Green Steel (H2GS), thus securing unparalleled access to substantial quantities of virtually carbon-emission-free steel. Such cooperations enable Klöckner & Co to significantly expand its portfolio of sustainable products and services. We are securing volumes of green steel for our customers at an early stage – with the option of expanding the volume in the future. We believe that our materials can play a major role in the circular economy of the future, unlocking possibilities to develop new products, employ other materials and find new supply chains. This way, we will recognize opportunities for disruption through circularity models, such as modular construction and dismantlable production components for the building industry. Steel is the world’s most frequently recycled material and it plays a key role in the transition to a low-emission circular economy. With the addition of green steel to its product portfolio, Klöckner & Co underscores its commitment to a more sustainable economy.

Climate goals until 2030 checked and approved by the Science Based Targets initiative

We see our responsibility for lowering our own emissions as well as those in our upstream and downstream supply chains. Back in 2020, Klöckner & Co signed up to the UN Global Compact initiative “Business Ambition for 1.5°C.” In aligning its business activities with science-based targets, the Company aims to do its part to reduce global warming to 1.5°C through appropriate measures. As a pioneer in the industry and one of the few players in our sector, we have signed up to the GHG Protocol under the Science Based Targets initiative (SBTi) – the world’s most ambitious and significant framework for emissions reduction. Our near-term goals until 2030 have been checked and approved by the Science Based Targets initiative:

50% reduction in emissions in our direct control (Scope 1, 2 and some in Scope 3) by 2030
30% reduction in emissions not in our direct control (Scope 3) by 2030

Scope 1 includes all direct emissions that are an immediate result of burning fuels as part of the Company's own operations. Scope 2 encompasses indirect emissions associated with purchased energy such as electricity or district heating. Scope 3 covers all indirect carbon emissions generated through the manufacture and transportation of goods. We differentiate between those that are under our direct control (Scope 1, 2 and some in Scope 3), and those that are generated by our suppliers and customers (Scope 3). For the long term, we are committed to reducing directly controllable carbon emissions to net zero by 2040 (Scope 1, Scope 2 and directly controllable Scope 3 emissions). Scope 3 emissions that we can only control indirectly – primarily from externally sourced steel products – are to be cut to net zero by 2050.

Klöckner & Co is concentrating on specific action to reduce its ecological footprint, focusing on emissions generated in its own business. Activities to this end include further centralization of energy procurement and a progressive switch to renewable energy sources. In addition, we have already begun converting our car and truck fleet to innovative means of propulsion, including electric mobility and hydrogen. Comprehensive emission analyses and emission limits in procurement and logistics will leverage further potential for savings. With regard to directly controllable carbon emissions from the upstream and downstream supply chains, Klöckner & Co will achieve reductions by means of innovative meeting and travel concepts.

Our focus is on carbon-reduction measures. However, it is not possible to avoid all emissions along all supply chains today. Consequently, we additionally compensate the currently unavoidable Scope 1 and 2 emissions by investing in high-quality, certified climate projects. Thus, Klöckner & Co has already achieved carbon neutrality with regard to its own business activities.

For us, the dimensions of sustainability also include social responsibility and highly reliable governance in addition to environmental factors. This is because, for Klöckner & Co, responsible conduct based on ethical convictions paves the way for long-term business success and hence also for sustainability. In the social sphere, we focus on the way we work with our employees, suppliers and customers and our social surroundings. Occupational safety and health are at the top of our agenda and we engage to promote health with initiatives like Safety 1st and Kloeckner Cares. Our involvement also specifically targets educational opportunities in communities. We are committed to highly reliable governance, which we deliver on in ways like creating transparency and demonstrating commitment. Our responsible business management and control geared toward sustained value creation builds trust with business partners, employees, investors at home and abroad, and the general public.

Sustainability management

Sustainability Committee determines main pillars of sustainability strategy

As a tradition-rich company, Klöckner & Co considers it its duty to ensure its own future viability by means of long-term, strategic goals. In this process, responsibility for the bulk of internal and external stakeholders plays an important role that follows from the size and international presence of our business activities. To shape these relationships in the long term and in a responsible manner for the benefit of all, we bundle all relevant activities in a Group-wide sustainability management system that covers the three dimensions of sustainability: economic, environmental and social. The CEO is functionally responsible for the area of sustainability. Responsibility for sustainability management, coordinating all sustainability activities and compiling the Group non-financial report lies with the Strategic Sustainability department, which was created on August 1. Klöckner & Co established this department in order to forge one central unit driving the strategic management to develop sustainable business solutions. A Sustainability Committee was already set up at the end of 2016, composed of managers from Investor Relations, Strategic Sustainability, Legal & Compliance/Personnel & Insurance, Group HR, Risk Management and Digital Transformation. Global Logistics & Operations Excellence assumes responsibility for subsections of the former Safety, Health, Environment and Quality (SHEQ) Management in the Transformation unit. The Sustainability Committee determines the main pillars of the sustainability strategy and, regarding its implementation, coordinates its activities closely with the respective segments and their departments across the Klöckner & Co SE Group. Alongside the expertise bundled in our Sustainability Committee, we purposefully harness our employees' innovative drive. Our employees can use the Company-wide social network Yammer to submit ideas and suggestions, the feasibility of which is subsequently evaluated by Strategic Sustainability as well as by relevant experts.

To better ensure the achievability of our non-financial targets and highlight their importance, the Group Management Board's non-financial targets for variable compensation for fiscal 2022 have been expanded. Furthermore, these additional targets in the areas of occupational safety, digitalization and automation, employee satisfaction and reduction of carbon emissions were extended to the entire first management level below the Group Management Board as well as to additional executives at levels two and three.

Commitment to sustainability and fairness

As a pioneer on the way to a sustainable steel industry, the Group has signed up to various standards and initiatives that demonstrate our ambitious commitment. By pursuing a holistic approach, we aim to actively drive the green transformation of the economy and society through the sustainable strategic orientation of our business. Our voluntary commitments demonstrate our ambition and responsibility. (Examples)

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

RACE TO ZERO

SUSTAINABLE DEVELOPMENT GOALS

BUSINESS AMBITION FOR 1.5°C

FAIR company 2021

Group non-financial report

The following sustainability reporting for 2021 includes the Group non-financial report of Klöckner & Co SE in accordance with Section 315b of the German Commercial Code (HGB) and the EU Taxonomy Regulation (EU) 2020/852 of the European Parliament and of the Council and the delegated acts adopted in this respect, as well as the interpretation presented in the section titled "EU taxonomy" of the separate Group non-financial report. In the Group non-financial report, we present the non-financial issues of major relevance to our business activities together with the impact of those activities on aspects comprising environmental matters, employee matters, respect for human rights as well as anti-corruption and bribery. This includes the chapters of the Employees, Responsible Conduct and Environment action areas. In addition, we provide transparent reporting in the following on our broader engagement with regard to sustainability. This includes the chapters relating to the Digitalization and Customers action areas. We report on the social matters aspect in the social commitment section of the Responsible Conduct chapter. The reporting period for the non-financial consolidated report is the fiscal year 2021. Unless otherwise specified, the information covers all fully consolidated companies of the Klöckner & Co SE Group. Following re-evaluation, we decided against using a framework in the preparation of the Group non-financial report, as we do not require a framework to present the relevant information in a structured and stringent manner. In addition, such frameworks build upon different definitions of materiality and result in a choice of topics that is not appropriate for our representation of non-financial aspects. However, verification of the use of a framework is regularly carried out.

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft was engaged to provide a limited assurance review of the information items in the German PDF version of the sustainability report, which contains the Group non-financial report, for the period January 1, 2021 to December 31, 2021.

Materiality analysis

The topics to be included in the Group non-financial report are specified and formulated within the context of our sustainability management. Our definition of sustainability comprises all the areas that contribute to securing the long-term success – i.e. the future viability – of Klöckner & Co. We review the reporting topics on an ongoing basis in order to ensure that we are advancing the key issues that are material to a sustainable, forward-looking strategy in a dynamic market environment. In 2020, we conducted a thorough materiality analysis based on the results of the materiality analysis from 2017. The prioritization of the issues reflects their importance in terms of business relevance (net assets, financial position and results of operations, innovation and reputation) as well as the impacts of our business activities and the upstream supply chain on the environment and on society. Those topics were categorized as material that meet the bar for double materiality. This refers to company activities and business topics that have a decisive negative or positive impact on sustainability aspects outside the organization (inside-out perspective) as well as external sustainability aspects that have a significant impact on internal company activities (outside-in perspective). The aggregate results were coordinated with the CEO to ensure comprehensive and integrated reporting for the Group. The topics deemed material are the focus areas of this report. Our Sustainability Committee discussed, validated and confirmed the relevance of the action areas and (material) topics included in the 2020 materiality analysis. The reporting topics remain unchanged from the prior year. Although sustainability topics continue to evolve rapidly, we also see a need to assess their long-term relevance in order to develop them in a sustainable manner.

Action areas and reporting topics (material topics are highlighted in color)

Action area	TOPICS	CSR-RUG (HGB) CLASSIFICATION
EMPLOYEES	Occupational health and safety	Employee matters
	Employee development	Employee matters
	Fair working conditions	Employee matters
	Demographic change	Employee matters
RESPONSIBLE CONDUCT	Corporate governance	Anti-corruption and bribery
	Human rights in the supply chain	Respect for human rights
	Social commitment	Social matters
	Antitrust risks	Anti-corruption and bribery
ENVIRON-MENT	Environmental impact of logistics	Environmental matters
	Sustainable business models	Environmental matters
DIGITALIZA-TION	Digital transformation	Group-specific aspects
CUSTOMERS	Customer satisfaction	Group-specific aspects

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

Apart from the topics identified in the materiality analysis, we also report on topics that are significant to Klöckner & Co in connection with sustainability: human rights in the supply chain, corporate governance, fair working conditions, demographic change and social commitment. This way, our reporting covers the two obligatory aspects of respect for human rights (human rights in the supply chain) and social matters (social commitment), which the HGB requires. We identified one new topic in the reporting year, namely sustainable business models, which emerged as a result of its increased strategic significance for the Group. Our sustainability management is aligned with the five action areas of Employees, Responsible Conduct, Environment, Digitalization and Customers. They also form the chapters of this report.

EU taxonomy

In 2019, the EU Member States agreed to reduce net greenhouse gas emissions to zero by 2050 as part of the "European Green Deal." This deal aims to make Europe the first climate-neutral continent. As part of the European Union's "European Green Deal," the EU Taxonomy Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment requires companies to operate more sustainably. The Taxonomy Regulation applies to the EU and its Member States, financial market participants providing financial products, and companies required to make non-financial disclosures, including their non-European subsidiaries.

The EU taxonomy requires companies to review and evaluate whether and to what extent their activities fall under the definition of "ecologically sustainable activities." The regulation includes the following: An economic activity must pursue at least one of six environmental objectives without adversely impacting any of the other objectives. The environmental objectives comprise: (1) climate change mitigation, (2) climate change adaptation, (3) the sustainable use and protection of water and marine resources, (4) the transition to a circular economy, (5) pollution prevention and control, and (6) the protection and restoration of biodiversity and ecosystems. In addition to demonstrating a substantial contribution, taxonomy-compliant activities must fulfill "do no significant harm" criteria and meet minimum social-safeguard standards.

For the first reporting year 2021/2022, a reduced disclosure requirement applies in accordance with Article 8 of the Taxonomy Regulation (EU) 2020/852 and Article 10 of the Delegated Act (EU) 2021/C (2021) 487 of July 6, 2021. Economic operators must indicate which business activities are covered by the EU taxonomy ("eligibility"). For these taxonomy-eligible activities, the share of sales, capital expenditure (CAPEX) as well as operating expenditure (OPEX) for the fiscal year are to be reported. In accordance with Article 8, the underlying sales is defined as net sales under IFRS. For the CAPEX ratio, capital expenditure is to be considered if the costs incurred relate to assets or processes that meet the requirements in the Taxonomy Regulation or are part of a plan to meet such requirements. In addition, investments from the acquisition of taxonomy-eligible activities, as well as individual measures to reduce carbon emissions, are to be recorded. Operating expenditure to be recognized shall cover direct non-capitalized costs that relate to research and development, building renovation measures, short-term lease, maintenance and repair, and any other direct expenditures relating to the day-to-day servicing of assets of property, plant and equipment that are necessary to ensure the continued and effective functioning of such assets. The cost types listed above are recognized as taxonomy-eligible OPEX if they relate to assets or processes covered by the taxonomy. In addition, operating costs from the acquisition of taxonomy-eligible activities, as well as individual measures to reduce carbon emissions, are to be recorded.

Dynamic regulatory environment

The only reporting requirement for fiscal year 2021 is the percentage of taxonomy-eligible activities ("eligibility"). The percentage of taxonomy-aligned activities ("alignment") is only required to be reported from 2022. Klöckner & Co is subject to the reporting requirements pursuant to Sections 289b and 315b of the German Commercial Code (HGB). As a result, we include the information required by the taxonomy in our non-financial report. Activities relevant to the first two environmental targets of the taxonomy, namely climate change mitigation and climate change adaptation, have already been defined for 13 industries. At present, the EU Taxonomy Regulation is focused primarily on industries with a significant environmental footprint and whose transformation therefore has a material influence on achieving the previously discussed targets. As the steel distribution sector in which Klöckner & Co is classified has no material influence on the achievement of the targets, it is not currently covered by the EU taxonomy. This results in a reduced disclosure requirement for us under the EU taxonomy. While we expect dynamic regulatory developments to require more comprehensive disclosures in the future, we are already aware of the vital strategic importance that sustainability has for our business (see page 130 regarding our sustainability strategy). We report on our climate targets and sustainable business solutions in the Environment chapter, starting on page 157.

In order to make available the information required by the taxonomy, a project team was formed consisting of employees from the Strategic Sustainability, Corporate Controlling and Corporate Accounting departments. All business activities of Klöckner & Co were classified and bundled in an impact analysis. This produced an overview that was subsequently mirrored by means of internal interviews. The starting point for the classification of our business activities was the description of the taxonomy activity itself and, where needed, the associated NACE codes (Nomenclature statistique des activités économiques dans la Communauté européenne, or the Statistical classification of economic activities in the European Community). The technical screening criteria (TSC) were also included as indications in the analysis of the taxonomy eligibility where useful, without regard to the actual fulfillment of the TSC requirements.

IDENTIFICATION OF TAXONOMY-ELIGIBLE ACTIVITIES

After identifying the potential main activities based on the product groups and services of Klöckner & Co, we conclude that the following economic activities are initially EU taxonomy-eligible according to Annex I of the Delegated Act C (2021) 2800 final (climate change mitigation):

- Activity 6.6 Freight transport services by road. According to Annex I of the Delegated Act, this economic activity includes the purchase, financing, leasing, rental and operation of vehicles designated as category N1, N2 or N3 falling under the scope of EURO VI, step E or its successor, for freight transport services by road. Klöckner & Co mainly makes use of N3 class vehicles for freight transport due to the high payload capacity required. Freight transport by Klöckner & Co with vehicles that meet the above criteria can therefore be taken into account as a taxonomy-eligible economic activity within the meaning of the EU taxonomy. Only Klöckner & Co trucks that already comply with emission level E were taken into account.

In addition, Klöckner & Co has identified the following additional taxonomy-eligible activities in terms of CAPEX and OPEX which are not directly related to the product and service portfolio:

- Activity 6.5 Transport by passenger cars and commercial vehicles

- Section 7 “construction and real estate activities,” in particular the activities installation, maintenance and repair of energy efficiency equipment (7.3), and the installation, maintenance and repair of renewable energy technologies (7.6).

There is currently no consensus on whether taxonomy eligibility under activity 7.7 “buying real estate and exercising ownership of that real estate” extends to warehouses which are primarily used merely for the protection of products, materials and machinery. Since there is considerable doubt as to whether the relevant technical evaluation criteria are applicable to these investments, we refrain from classifying them as taxonomy-eligible.

The Corporate Controlling and Corporate Accounting departments worked in close cooperation to collect key figures for the taxonomy-eligible activities identified. The Group-wide consolidation tool was used for data gathering.

DERIVATION OF KEY FIGURES

The eligible sales related to activity 6.6 was identified as immaterial since, according to the description of the activity, only transport sales performed with trucks of emission level E can be recognized here. However, as this emission level has only been relevant for newly registered vehicle types since January 1, 2021 and was introduced for all vehicle types on January 1, 2022, emission level E vehicles only account for a very small proportion of Klöckner & Co's total truck fleet. The majority of our new trucks purchased in the reporting year comply with emission class D, whose technology and performance level also ensure low fuel consumption and thus drive in a more fuel-efficient and environmentally friendly manner than the lower emissions classes. As a result, the truck fleet as a whole meets the latest requirements. The share of all taxonomy-eligible economic activities in total sales in the fiscal year 2021 amounted to less than 1% of the total sales reported in the Annual Report (see Note (7) to the consolidated financial statements). Consequently, taxonomy-eligible activities are not material for Klöckner & Co's business model in the aggregate. Capital expenditure ("eligible CAPEX") related to assets or processes associated with taxonomy-eligible economic activities was differentiated by asset class. In the 2021 fiscal year, 4.3% of Klöckner & Co's capital expenditure was taxonomy-eligible. Total capital expenditure is the sum of the additions disclosed in Note (16) Intangible assets and property, plant and equipment to the consolidated financial statements from (a) additions to intangible assets excluding goodwill, (b) property, plant and equipment, and (c) leases. The total capital expenditure used as a basis for this calculation corresponds to the sum of gross additions to intangible and tangible assets, as well as right-of-use assets accounted for in accordance with IFRS 16.

All taxonomy-eligible investments relate to investments in property, plant and equipment.

Economic activities	Activity code	CAPEX in €t	Share of total CAPEX in %
Transport by passenger cars and commercial vehicles	6.5	1,907	1.8%
Freight transport services by road	6.6	636	0.6%
Construction and real estate	7.3/7.6	2,058	1.9%
Taxonomy-eligible CAPEX		**4,600**	**4.3%**
Non-taxonomy-eligible CAPEX		102,406	95.7%
Total		**107,006**	

In fiscal year 2021, taxonomy-eligible operating expenses amounted to less than 1% of the total EU taxonomy-relevant expenses of €65,934 million. Total operating expenses as defined by the EU taxonomy include maintenance and repair costs, as well as short-term leasing expenses. The operating expenses attributable to the identified taxonomy-eligible business activities are therefore not material to Klöckner & Co's business model in the aggregate.

In line with the October 2021 publication of the European Securities and Markets Authority ("ESMA"), and in light of the existing dynamics of EU taxonomy legislation, we note that our impact analysis may be subject to subsequent adjustments in the future.

Risk assessment

No reportable risks

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

TCFD Index

The Task Force on Climate-related Financial Disclosures (TCFD), founded by the G20 Financial Stability Board (a grouping of 19 countries and the European Union representing major developed and emerging economies), has developed a unified framework for reporting climate-related risks and opportunities. The framework focuses on the disclosure of financial risks that companies are exposed to as a result of climate change. Klöckner & Co considers the recommendations of the TCFD to be a useful extension of reporting on climate-related risks and opportunities, enabling them to be disclosed in a more comprehensible manner. A content overview regarding this thematic area, prepared for the first time in the reporting year, can be found in the following index to the TCFD recommendations. The index contains references to relevant passages regarding the core elements recommended by the TCFD: governance, strategy, risk management as well as metrics and targets. An analysis has shown that not all recommendations can be implemented in detail at the current time. The measures and projects planned for 2022 to further integrate sustainability and climate risks into the risk management system will lay the foundations for the further development of reporting in this area.

Core elements	Climate-related information
Governance	
Disclose the organization's governance around climate-related risks and opportunities	As part of its overall responsibility for the Group-wide risk management system, the Management Board bears responsibility for climate-related risks and ensures that the sustainability strategy is implemented. The CEO is functionally responsible for the area of sustainability. The corporate Strategic Sustainability department is responsible for sustainability management. In addition, there is an interdisciplinary Sustainability Committee made up of managers from various corporate departments at Klöckner & Co SE. **Additional information:** ▪ Annual Report 2021 (Risks and opportunities) ▪ Sustainability Reporting 2021 (Sustainability management)

Strategy	
Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy and financial planning where such information is material	Klöckner & Co views the issue of sustainability in the steel industry as a strategic opportunity and has anchored its sustainable transformation in the Group strategy "Klöckner & Co 2025: Leveraging Strengths." Klöckner & Co aims to become the leading digital one-stop-shop platform for steel, other materials and processing services in Europe and the Americas as well as a pioneer for sustainability in the steel industry. In addition to the digital transformation and automation of processes throughout our value chain, the reduction of Klöckner & Co's environmental impact and carbon footprint has become a strategic focus for the Group. On the way to a sustainable steel industry, we will exploit the strategic opportunities presented by decarbonization. Klöckner & Co is working to create a new range of sustainable steel that is produced with no emissions, thus establishing ourselves as a pioneer of a sustainable steel industry. The high volatility of energy prices is regarded as an intermediate strategic risk. The growing relevance of environmental and sustainability issues, such as carbon pricing, could put additional upward pressure on energy prices in the long term. In response to this challenge, the Group is further rolling out its sustainability concept. This includes initiatives such as tracking and monitoring carbon emissions and actions to optimize the vehicle fleet and energy consumption in general. To reduce environmental risks, the Group has set ambitious climate targets for itself. **Additional information:** ▪ Sustainability Reporting 2021 (Sustainability strategy) ▪ Annual Report 2021 (Risks and opportunities) ▪ Website: https://www.kloeckner.com/en/sustainability/sustainability-strategy.html

Risk management	
Disclose how the organization identifies, assesses and manages climate-related risks	Group risk management is organized in a decentralized Company-wide network and is steered by a central risk management function. The corporate Risk Management department reviews, validates and evaluates the risks identified and assessed by risk owners according to risk category from the perspective of the Company as a whole. The primary objectives of the risk management system are to identify and assess material risks and, above all, the early detection and active reduction of potential going concern risks. Any significant risks identified are monitored on an ongoing basis in order to prevent, reduce, transfer or limit their potential negative impact. A risk assessment is conducted annually for all material non-financial issues. Klöckner & Co plans to integrate sustainability, climate and other non-financial risks – as well as the assessment and management of such risks – more closely into its overall risk management. **Additional information:** ▪ Annual Report 2021 (Risks and opportunities) ▪ Sustainability Reporting 2021 (Risk assessment)

Metrics and targets	
Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material	Current climate metrics consist primarily of the measurement of the carbon footprint from Scope 1, 2 and 3 emissions, as well as the measurement of progress towards our ambitious climate targets. Klöckner & Co is committed to halving its directly controllable Scope 1 and Scope 2 emissions by 2030. With regard to Scope 3 emissions in our direct control, we are likewise going to achieve a 50% reduction by 2030. We look at the entire supply chain – including Scope 3 emissions not in our direct control. We will achieve a 30% reduction of these carbon emissions by as early as 2030. These targets have been validated by the Science Based Targets initiative. We have set ourselves additional climate targets as part of the "kloeckner takes action 2040" campaign. Klöckner & Co plans to reduce all directly controllable carbon emissions (Scope 1, Scope 2 and directly controllable Scope 3 emissions) to net zero by 2040. Emissions that we can only control indirectly – primarily from externally sourced steel products – are to be cut to net zero by 2050. As carbon emissions are central to the assessment of climate-related risks, we consider Scope 1, 2 and 3 emissions to be key metrics. The bonus structure has been adapted to ensure that we reach our climate targets and underscore their importance. As a result, the agreements now also incorporate the achievement of emission reduction targets. They apply to to the entire first management level below the Group Management Board as well as to additional executives at levels two and three. Additional information: ▪ Sustainability Reporting 2021 (Sustainability management) ▪ Website: https://www.kloeckner.com/en/sustainability/kloeckner-takes-action-2040.html

Sustainable Development Goals

The United Nations 2030 Agenda for Sustainable Development lays the foundation for shaping global economic progress in harmony with social justice and within the Earth's ecological limits. At its core are 17 Sustainable Development Goals (SDGs). We support the 2030 Agenda for Sustainable Development and the 17 Sustainable Development Goals. The goals defined by the United Nations are on an equal footing and are mutually dependent – but in the context of our business activities, some of the goals and indicators have particular relevance for our economic activities. For these goals, we see special responsibility and opportunities for influence, which vary depending on the goal. We take into account the positive impact that Klöckner & Co has on the achievement of the goals. We support the goals by continuously improving our business processes and services while reducing the impacts of our operations. Our action areas for sustainability are reflective of the high relevance that the pursuit of these specific goals has for us. We evaluate our action areas on a regular basis, taking into account the views of internal and external stakeholders as well as the impact of our actions on the environment and society.

Sustainable Development Goals with particular relevance for sustainability management at Klöckner & Co:

A safe and healthy working environment

An important prerequisite for our success and sustainable development is the safety and well-being of our employees and business partners. With our Group-wide "Safety 1st" program, we aim to protect our employees, provide safe working conditions and minimize health risks. Klöckner & Co stands for safe, fair and clean labor standards and processes. For this reason, we use the lost time injury frequency (LTIF) indicator as a non-financial performance indicator.

As a Group operating globally, we pay special attention to respect for human rights as well as social and ecological aspects in our worldwide supply chains. We only work with partners who demonstrate equivalence with our requirements and demand the same from their suppliers.

Read more about how we create a safe working environment in the chapters Environment, Employees and Responsible Conduct.

Future-proof employment based on diversity and high-quality training

Klöckner & Co is committed to providing an appreciative and prejudice-free working environment. We leverage different ways of thinking, experiences, perspectives and lifestyles for innovative strength and the Company's long-term success. We want to drive sustainable economic growth through diversity and the efficient use of resources. In terms of equal opportunity, the inclusion of women in specialist and management positions is an important concern for us as well. We have set our sights on increasing the number of women in management roles throughout the Group.

We promote reasonable and fair labor and social standards. In addition, we assume social responsibility – for example through monetary and in-kind donations, knowledge transfer and the personal engagement of our employees.

Learn more about high-quality training and continuing education for our employees, respect for human rights, and sponsorship activities with a focus on education in the chapters Employees, Responsible Conduct and Digitalization.

Active climate change mitigation and the promotion of sustainable products and services

As a pioneer in the industry and one of the few players in our sector, Klöckner & Co has signed up to the Science Based Targets initiative (SBTi) "Business Ambition for 1.5°C" campaign, the world's most ambitious and significant framework for emissions reduction. The initiative has recognized our near-term emission reduction targets for 2030 as science-based targets. Additionally, we plan to reduce all directly controllable carbon emissions to net zero by as early as 2040.

The sustainable strategic orientation of our business makes us pioneers in our industry and means we can actively drive the green transformation of the economy and society. We are committed to reducing the environmental impact of our own business activities and increasingly establishing elements of the circular economy. We are also involved in climate change mitigation projects in countries where we do not do business.

Read more about our measures to reduce emissions and how we are further developing sustainable and digital product solutions and services in the chapters Environment, Digitalization and Customers.

EMPLOYEES

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

For Klöckner & Co, qualified, motivated and healthy employees are the basis on which added value is created: added value for our employees, our company and ultimately for our customers. If we are to strengthen motivation among the entire workforce, nurture talent from within our own ranks, recruit new talent and secure employee loyalty, we need a working environment characterized by long-term security, supportiveness, professionalism and mutual respect.

Principles and values shared Group-wide

This is also reflected in our Klöckner & Co principles for all employees, which guide our day-to-day conduct and for which we clearly delineate responsibilities. They are: We take responsibility. We create added value. We are team players. We develop. We discover new things. We make things possible. Our values form the foundation for our new strategy, "Klöckner & Co 2025: Leveraging Strengths": We are committed to staff empowerment, safety, responsibility, credibility and sustainability. A motivating style of leadership, empowering people and fostering a culture of innovation through self-determination, talent development and incentivization are the basis for this. They allow us to advance our innovative capacity, take advantage of opportunities and grow the value of our Company. We continuously optimize our organization, becoming more agile and adaptable to thrive in an environment of continuous change.

We are proud that Klöckner & Co was named one of the World's Best Employers of the year 2020 in February by Forbes, one of the world's most successful business magazines. We rank among the top 15% of companies included in the survey. This recognition is proof of the continuous optimization of our culture and of the commitment and daily dedication of our employees. This award is based on a global, independent survey of 160,000 employees from 58 countries.

At the start of the year, we once again conducted a Group-wide employee survey. Almost all of the Group companies participated. Compared to the previous year's survey, the results remained largely stable with a slightly positive trend. The participation rate declined slightly from 68% to 64%. The questions that received the most positive responses were whether employees feel they are treated with respect by their immediate supervisor (86%) and whether everyone knows how they can contribute to the Company's goals (85%). More than three out of four respondents (76%) would recommend Klöckner & Co as an employer. This number has clearly grown over the last two years (following on from 68% in 2019 and 71% in 2020). Slightly more than 10% of employees see room for improvement in the feedback culture. Since the survey was conducted with site-level granularity, we can take targeted measures in our response to issues such as the way feedback is handled. The results of the survey are used to rigorously implement change management. They provide the springboard for initiating new HR management measures and developing our culture.

Employee development

Continuing education is a key component of our corporate culture. That is why we offer employees a wide variety of continuing education and personal development opportunities. Our activities are directed at continually refining and enhancing workforce qualifications and skills – notably with regard to digitalization – and promoting talent from within our own ranks. Most country organizations perform these activities autonomously and have their own HR developers. Our Group-wide HR strategy, known as the Klöckner & Co People Strategy, serves as a guiding framework for forward-looking employee management throughout the Group.

Some 56,000 in-house training courses completed

Continuing education is a high priority at Klöckner & Co. Group-wide, over 56,000 in-house courses were completed in a broad spectrum of areas in the reporting year. The majority of these courses were in IT security, compliance and digital skills development as part of the Digital Academy. Particularly worth mentioning is that the first Group-wide mandatory training on sustainability was offered. The course covers information on basic definitions, emissions reduction and the opportunities that doing business sustainably opens up. The course was well received and given a rating of 8.2 out of 10 by employees on average. Not included in the 56,000 training courses were external, individual training sessions. Employees receive feedback on their behavior and performance up to four times a year during reviews, and individual wishes and training courses are incorporated as part of target agreements. Our internal training programs are of particular importance:

Internal continuing education program	Type	Content	Scope
CLEAR Sales	Sales training	Communication Establishing/strengthening customer relations	Europe-wide
Sales X	Sales training	Field work	US-wide
Initial Development Program (Country Talent Pool)	Young talent development	Strengthening strategic and specialist skills Change management	Europe-wide
Emerging Leaders Program	Leadership potential development	Business management issues Leadership skills Change management Agile working methodologies	Group-wide
Leading for Success	Leadership potential development	Communication Personality management Lean management Change management	US-wide
Leadership Empowerment Program	Management training	Mindset Communication Leadership skills Ethics and compliance Digital transformation	Group-wide
Senior Experience Program	Development training 55+	Impact planning for the future career phase	Pilot program in Germany

For career starters and students, Klöckner & Co offers internships and working student positions across the Group so that they can apply and consolidate content from their studies in real-life business situations. Our German activities in this connection follow the quality standards of the Fair Company initiative, for which Klöckner & Co reaffirms its commitment each year. We also offer a large number of apprenticeships and equivalent programs to provide young people with a career entry point while ensuring that Klöckner & Co is able to secure well-qualified young talent. In Germany, apprentices accounted for 3.5% of our entire workforce in the reporting year.

Occupational health and safety

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

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

LTIF value reduced to 6.9 in 2021

The Group-wide goal of our occupational safety initiatives and activities is a consistent reduction in occupational accidents as measured by the lost time injury frequency (LTIF). This is defined as the number of accidents/number of hours worked x 1,000,000. We take accidents into account from the first working day lost. Changes in the LTIF are a firm feature of regular Management and Supervisory Board meetings and are captured in monthly reports. In the 2021 reporting year, the LTIF was reduced to 6.9 from 9.7 in the previous year. This brought the Group-wide LTIF significantly below the self-imposed annual target value of less than or equal to 9.0. Against the backdrop of rolling targets for the reduction of Group-wide average accident frequency, the target for 2022 is an LTIF value of less than or equal to 7.6.[1]

Within the Group, regular exchanges on the topic of occupational safety in Europe are ensured thanks to the committee we have established comprising experts from the European country organizations. This committee meets at least twice a year and is responsible for monitoring the overall measures and coordinating our occupational safety strategy. The committee liaises closely with the US country organizations and reports directly to the managers responsible for operations.

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

At country and branch level, SHEQ teams at each of our country organizations work continuously to systematically reduce the risk of accidents and to raise occupational safety awareness among the workforce. Officers at each country organization are responsible for the regional rollout of adopted measures, subject accident causes to plausibility checking, perform risk analyses and coordinate cross-site training. The Group-wide SHEQ policy was jointly updated in the reporting year and approved by the Management Board.

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

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

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

Accidents are always avoidable and preventive action enables us to avert loss or harm to employees or our business in advance. In the event that an accident does happen, the occupational health and safety officer analyzes it together with those concerned in local teams in order to identify measures for improvement and systematically avoid a repeat occurrence. The country organization officer files a detailed accident report to the holding company's occupational health and safety officer via our reporting system. Additional specific action is taken in the event of any unusual occurrences such as a spate of similar accidents at one country organization or site. Occupational safety is always the first topic on the agenda at the monthly business update calls with the Group Management Board, the management boards of the country organizations, and all department heads at the holding company. This creates continuous awareness at the top management level.

Safety measures during the COVID-19 pandemic and hybrid working

New guideline for hybrid working

Klöckner & Co's most valuable asset is the health and safety of our employees. Since the start of the global COVID-19 pandemic at the beginning of 2020, the Group as well as the country organizations have routinely developed hygiene concepts and safety measures according to needs and requirements and have repeatedly relaxed or tightened them depending on the severity of the pandemic. At the onset of the pandemic, the advanced degree of digitalization at Klöckner & Co meant that employees could perform most of their work at home and continue doing business. This development prompted us to issue a new Group-wide guideline on hybrid working at the end of the summer. It is considered our future standard for sustainable modern working: Anybody who wants to work remotely can do so – as far as the Company's needs permit. We recommend working from home a maximum of three days per week and two days in the office, including two fixed team days in the office each month. The new guideline also has an additional advantage in terms of climate change mitigation. By reducing our employees' commutes, we are lowering carbon emissions.

Fair working conditions

For Klöckner & Co, fair working conditions are the basis for the motivation, and hence productivity, of our employees. A working environment characterized by mutual respect and free from discrimination of any kind is a necessary precondition for motivation and creativity. The CEO is functionally responsible for Group HR, which includes the definition of and adherence to fair working conditions. With our Code of Conduct, we have undertaken to ensure, among other things, that our colleagues, applicants and business partners are met with respect and judged according to their qualifications, skills and performance. We respect diversity of cultural, ethnic and religious backgrounds and are committed to the principle of equality. Detailed rules of conduct for our employees are set out in our Code of Conduct on our website, www.kloeckner.com. For management, this means resolving critical situations, supporting employees and thus ensuring a constructive and respectful working environment. To do justice to its importance, the topic of respectful interaction is a component of the Group-wide compliance training for all employees.

Signing the Diversity Charter

In general, we strive to increase diversity in our workforce as well as to foster creativity and an innovative spirit in the Company with employees of differing cultural backgrounds, lifestyles and values. For us as an international Group, serving our customers day in, day out in numerous countries around the world calls for strong teams with high levels of diversity. For instance, our digital unit kloeckner.i alone employs people from 25 different countries. To advance diversity management more actively and comprehensively, Klöckner & Co signed the Charta der Vielfalt, or Diversity Charter, in May. The association that goes by the same name is the largest employer initiative in Germany for the promotion of diversity in companies and institutions. Irrespective of any given site's location in Germany, the voluntary commitments entered into are valid throughout the Group. These include fostering a respectful organizational culture, recognizing diversity inside and outside the organization, and implementing the charter in internal and external dialog. "Innovative power comes from diversity in action. In my professional life, I have experienced time and again that great things are created when very different people work together towards a common goal. This is exactly the way we need to work in order to ensure that Klöckner & Co is well positioned in the long term. That's why we must eliminate prejudice and promote appreciation," said CEO Guido Kerkhoff at the signing ceremony.

However, diversity of nationality is not the only important consideration for Klöckner & Co. We also aim to appoint women to specialist and management positions. The percentage of women employed at management levels one to three below board level has already been raised from 8% in 2011 to 18% Group-wide in the reporting period. The aim is to further increase their share to 21% by 2024.

The success of our approach to promoting women in managerial positions is demonstrated by the findings of the 2015 to 2020 iterations of the "Frauen-Karriere-Index" (Women Career Index), a regular survey conducted by Barbara Lutz Index Management GmbH. In March, this annual external survey based on objective corporate data on the promotion of women in management positions singled out Klöckner & Co yet again – as it has every year since 2015 – as one of the top ten companies out of over 200 participants.

RESPONSIBLE CONDUCT

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

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

Ensuring adherence to international regulations and fair conduct toward our business partners and competitors is one of our Company's most important guiding principles. Klöckner & Co SE considers itself to be bound in this connection not only by statutory and other legal provisions. Voluntary obligations and ethical principles are likewise integral to our corporate culture. These include the Davos Manifesto on sustainable value creation, which we co-signed in January 2020, and the German Industry's Code of Responsible Conduct for Business to which we committed in May 2011.

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

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

Compliance

As an international group with numerous supplier and customer relationships worldwide, Klöckner & Co aims to ensure integrity and responsibility both within the Company and in interactions with business partners, as well as to establish responsible relationships. We aim to avoid potentially corrupt and antitrust situations as a fundamental rule and to counteract potential violations at an early stage. Every employee is called upon to actively help implement the Klöckner & Co compliance program within their sphere of responsibility.

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

Compliance Organization

Compliance management system based on OECD principles

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

The Company's corporate compliance organization consists of the Chief Compliance Officer (who is also the Chief Governance Officer), the Corporate Compliance Office (CCO), the Compliance Committee and the National Compliance Offices (NCOs). The CCO is part of the Company's GRC organization. The GRC organization consists of the Compliance, Data Protection, Information Security, Risk Management and Internal Control System departments. The compliance officers at the NCOs are available as contacts for individual questions. The appropriateness, implementation and effectiveness of the CMS are regularly reviewed by both the Corporate Internal Audit Department and an outside expert (most recently at the end of 2021).

Prevention

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

Zero tolerance policy

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

For compliance communication, the CCO makes use of the Yammer collaboration tool and the Teams chat-based virtual workspace. These are used to publish compliance-relevant matters and warnings, for example of current cases of identity fraud. From them, all employees can also directly access the compliance platform. Modules currently in use on the platform cover requests and approvals ("Ask Compliance"), vetting business partners ("Due Diligence"), a whistleblower system ("Let Us Know"), the Compliance SharePoint and the integrated Case Management Tool. The Compliance SharePoint serves as a "single point of truth" providing all relevant compliance documents, and is administered centrally by the CCO.

Compliance risk assessment

To identify and assess potential compliance risks within the focal areas of the CMS, the CCO regularly conducts compliance risk assessments with the country organizations. Together with the managing directors of the various country organizations, the CCO assesses the individual compliance risks in terms of relevance and probability of occurrence for the specific business model together with potential legal and financial impacts on the country organization. On the basis of these assessments, precautionary measures are taken and, where necessary, adjustments made to the CMS. In cooperation with the Corporate Internal Audit Department, compliance audits are also carried out in our country organizations as part of the scheduled ICS audits to verify adherence to the compliance tools and rules implemented.

Code of Conduct, directives and procedural instructions

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

Compliance training

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

As part of the onboarding program, classroom training and e-learning programs familiarize new employees with the content of the Code of Conduct and raise awareness of, for instance, compliance-related issues such as anti-discrimination measures, antitrust law, corruption risks and money laundering risks. We first separate employees into different target groups which then receive training tailored to their specific areas of work. In the reporting period, some 1,039[2] employees underwent training. Upon starting work for the Group, new employees in certain target groups, especially those who come into contact with officials, customers, suppliers and service providers, must complete basic compliance training in addition to Code of Conduct training. In the reporting period, we also expanded the number of employees registered for basic compliance training to 630[2]. Additionally, we conduct refresher e-learning sessions throughout the Group to keep our employees up to date.

Corruption prevention

To prevent corruption risks, the Company has established strict rules on hiring third-party brokers, whose integrity is assessed with the aid of an external service provider before entering into any contract. This review is repeated at regular intervals according to risk. All customer and supplier relationships are screened against sanction lists relevant to the Company. For this purpose, the Company uses software from an external service provider. To prevent money laundering, the Company has severely restricted cash payments. Compliance with due diligence requirements under money laundering legislation is monitored by means of organizational measures and IT-based checks. The top three levels of management and all board members are subject to integrity screening before engagement or appointment.

[2] Data for the period October 1, 2020 to September 30, 2021.

Detection and reporting
Compliance violations can be reported anonymously to the CCO. Employees and third parties can report potential violations of our Code of Conduct on the Platform's landing page and the Company website. A free-of-charge telephone hotline is also available 24/7 worldwide. The effectiveness of our compliance management is reflected in the figures. We had no serious breach of our policies to report this year, and none of our 12[2] reviews of individual business sites by Internal Audit identified any antitrust risks or corruption or bribery infringements.

The Chief Governance Officer (CGO) reports regularly to the Company's entire Management Board and the Supervisory Board on the latest compliance-related developments in the Group as well as on an ad-hoc basis in urgent cases. Furthermore, the CEO, who is responsible for Compliance, is regularly informed of compliance-related matters through Compliance Risk Assessment reporting and the Compliance Audits as well as during regular compliance meetings and in the annual compliance report. In line with the Management Board's zero tolerance policy, compliance violations are strictly pursued and sanctioned.

Human rights in the supply chain
Klöckner & Co SE and the country organizations pay attention to ethically correct and compliant behavior in business dealings. This concerns both our own Company and all upstream parts of our value chain. We expect everyone in our supply chain to follow the same principles.

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

Supplier Code of Conduct for all key suppliers

In order to clearly convey this expectation to our suppliers, we introduced a Supplier Code of Conduct Group-wide in fiscal year 2018, which is available on our website and was also sent out to all key suppliers. By their recognition of this document, suppliers commit to observing the applicable laws, sustainability and the ethical values of Klöckner & Co. If a supplier has its own equivalent company code of conduct, the Corporate Compliance Office verifies the equivalence of the requirements. If this verification uncovers major discrepancies in the areas mentioned and the supplier declines to acknowledge our Supplier Code of Conduct, further purchases from that supplier are blocked. No equivalence check was carried out in the reporting year, as the business partners concerned must accept our Supplier Code of Conduct as part of a workflow-based supplier onboarding process (Coupa).

[2] Data for the period October 1, 2020 to September 30, 2021.

Prudent and responsible product procurement is of special importance to Klöckner & Co. For example, a key goal in the procurement process is to ensure that minerals contained in our products are not from conflict states. The Company ensures compliance with supply chain due diligence requirements for raw materials from conflict-affected and high-risk areas and restricts the use of certain hazardous substances in electrical and electronic equipment. Dual-use goods and related foreign trade stipulations are centrally monitored with systemic checks in the IT systems. Of particular interest in this regard are conflict minerals such as columbite tantalite (coltan), cassiterite, gold, wolframite and derivatives, which include tantalum, tin and tungsten. The annual review of our product portfolio in fiscal year 2021 showed that less than 1% of our products possibly contain tantalum, tin or tungsten. We use the Responsible Reporting Initiative's "Conflict Minerals Reporting Template" to systematically track the provenance of conflict minerals for all relevant suppliers if our customers request corresponding proof. We expect our suppliers, together with their subcontractors, to trace conflict minerals at least to where they were smelted and to commit to standard reporting processes. We further expect our suppliers to retain the relevant documentary proof for five years and to submit it to Klöckner & Co on request. Should a supplier fail to provide proof of origin for conflict minerals, further purchases from that supplier are systematically blocked. The same applies if the supplier does not acknowledge the above principles regarding the source of conflict minerals. In the 2021 reporting year, no suppliers needed to be blocked for failure to provide proof.

Supply Chain Due Diligence Act

The law on corporate due diligence to prevent human rights violations in the supply chain announced in July also affects Klöckner & Co. It aims to improve the international human rights situation by setting requirements for responsible supply chain management for certain companies. In order to comply with our obligations under the law, we began preparations at an early stage and developed measures in meetings, interviews and a workshop. These will be further developed on a consistent basis in order to be able to meet our obligations at an early stage.

Social commitment

Klöckner & Co operates in 13 countries worldwide, maintains some 140 sites and employs around 7,200 people. This gives rise to responsibility not only for our employees, but also toward the regions in which our headquarters and branches are located. We consequently give our commitment to the immediate surroundings of our sites and, in this way, play our part in meeting social challenges.

Our goal is for the financial support we provide to benefit those who really need it. Donation and sponsoring activities are conducted autonomously by our country organizations as they are best placed to judge individual needs in their region. They are provided with a framework in the form of Group-wide procedural instructions through which we ensure that our activities have a common thrust while being tailored to individual market conditions. The focus of our activities is on supporting selected scientific, sports, art and cultural projects along with ongoing promotion of education initiatives and the integration of refugees into our society. In order to avoid conflicts of interest, we do not as a matter of principle donate to political parties, individuals, for-profit organizations or organizations whose goals conflict with our corporate governance principles or could harm our reputation.

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

Klöckner & Co has a clear long-term strategy for supporting non-profit projects in Germany: our aim is to improve educational opportunities long-term for disadvantaged children who live in our immediate vicinity. To achieve this goal, our contributions center on local projects to educate children and young people or cater to their basic needs, with the aim of benefiting as many youngsters as possible. For over ten years now, we have focused on neighborhood work in the Marxloh area of Duisburg, where a large number of residents have a migrant background. In this area, we work with schools, children's and youth services as well as regional charities.

In 2012, we joined forces with the Stiftung Klavier-Festival Ruhr and created a multi-award-winning education project to foster children's musical and artistic development, which was initially launched at two schools. Five schools in Marxloh now participate. At the beginning of the reporting year, a new program for daycare centers was added whose content is closely related to the music-education work done at the elementary schools. That spotlights the transition from daycare to school and opens up an additional field for cultural work in the community.

Successful partnership with the ReDI School in Duisburg and Berlin

In the reporting year, Klöckner & Co also reaffirmed its social commitment to the ReDI School of Digital Integration (ReDI School), a non-profit coding school, and will continue to support the organization's Kids and Youth Program in Duisburg's Marxloh neighborhood as the main sponsor. Ever since the ReDI School's inception in 2015, Klöckner & Co has been its main sponsor and, in addition to funding, also provides support such as access to space in kloeckner.i's Digital Lab in Berlin. Five ReDI School graduates have since taken up permanent positions at kloeckner.i, most of them working in software development. In August 2019, Klöckner & Co and the ReDI School worked together to launch the additional site in Marxloh. The digital school has seen very strong growth despite the COVID 19-related restrictions. About a year and a half after the launch of the Kids and Youth Program in Marxloh, enrollment has swelled from an initial 70 students to 340 today. The significant growth notwithstanding, the Kids and Youth Program remains focused on promoting job integration, teaching technical and soft skills, and building media skills.

In our international business, each country sets its own priorities within the framework of our donation policy. Our country organization in Switzerland, for example, has been strongly involved since 2005 in fostering young talent (under 23 years of age), stepping up as a Gold Partner in SwissSkills. It continued this work in the reporting year, when the competition took place despite the COVID-19 pandemic in a decentralized manner. The competition promotes top performance in some 60 training occupations and promotes appreciation for vocational training – particularly the dual educational and vocational system – in the public sphere.

ENVIRONMENT

In our business, it is not only economic criteria that play a role but also ecological and social criteria. In terms of environmental protection, we start with the environmental impacts of logistics because that is the area in which we have a major influence on reducing emissions. This is also a material reporting topic for Klöckner & Co. In this chapter, we also report on activities designed to build an emission-free value chain. The Environment action area *refers to the matter of environmental matters, which is required in the HGB.*

Environmental impact of logistics

Environmental protection is an important part of our SHEQ policy – our internal occupational safety, health, environment and quality policy. This international Group policy, which was updated in the reporting year, covers all relevant environmental aspects, from the responsible use of natural resources and the implementation of renewable energy to the reduction of emissions and waste. The CEO is functionally responsible for this area. Governance functions related to SHEQ fall under the purview of Global Logistics & Operations Excellence within the Digital Transformation and Strategic Sustainability corporate departments. All other functions lie with the country organizations, which have their own logistics departments.

Optimizing logistics processes and reducing carbon emissions

A significant part of our business model involves shipping products to customers by truck. One of Klöckner & Co's key tasks in the Environment action area is therefore optimizing the environmental impact of logistics processes along our value chain. In this context, a high-quality data base and digitalization are vital to the implementation of efficiency measures as they ensure transparency, which leads to sustainable actions along the entire value chain. Thanks to this supply chain optimization, we can achieve "green" effects by reducing waste in procurement, material planning, production, processing, transportation and logistics. It prevents incorrect shipments, cuts inventory and warehousing costs, and reduces the number of trips made by trucks. To this end, we endeavor to influence the environmental impact of logistics at three levels in our value chain as a matter of principle: the receipt of goods, internal transport and delivery to our customers.

Through the targeted coordination of suppliers and the receipt of goods at level one coupled with enhanced inventory management at level two, we aim to reduce the internal transport between our sites. This is achieved, for example, through optimized inventory allocation and by checking our internal network structures in each country organization on an ongoing basis. By monitoring and reporting relevant KPIs such as transport, warehousing costs and shipments, we can see where networks require adjustment. In the reporting year, two sites were expanded in the United Kingdom: Dudley is now a Center of Excellence, and Thurrock was enlarged to accommodate an expanded range and inventory in London and take pressure off the Leeds site. In Germany, the Regensburg site was converted to a key warehouse for sheets, and the Bremen site is now a processing center for thermal cutting. These measures create synergies in processing and customer deliveries, and also increase truck capacity utilization. In addition, all sites at our country organization Kloeckner Metals UK and our German company Becker Stahl-Service are already certified to the ISO 14001 environmental standard, which also covers logistics.

Kloeckner Metals UK attained BES 6001 recertification for responsible sourcing in 2021, this time achieving the higher "Good" standard. BES 6001 is an independent certification system that rates and assesses manufactured products in terms of their responsible sourcing. It covers organizational governance, supply chain management and management requirements for sustainable development such as social and economic impacts. The specialized steel fabricator Kloeckner Metals UK Westok was awarded the Steel Construction Sustainability Charter at Gold level. The objective of the Charter is to further advance steel as a sustainable form of construction.

On the third level, we pay particular attention to efficient delivery route planning, where key quality aspects include adherence to delivery dates along with ongoing optimum utilization of truck capacity and optimized route planning. This led us to launch a universal rollout of transportation planning software back in 2017. It is in operation throughout our EU country organizations with the exception of France. The transportation planning software delivers the data we need to reduce the fuel consumption of the trucks we use. This can include tactics such as avoiding empty runs and fine-tuning delivery frequencies. Since the beginning of 2020, Klöckner & Co Deutschland, Kloeckner Metals UK and Kloeckner Metals Benelux have been using the ePOD app as a way to further improve logistics processes. This solution is still being tested in France. The app supports the drivers during the delivery routes and forms the basis for digital documentation and transparency along the supply chain. On-board computers give the drivers in our modern fleet feedback on driving behavior, vehicle speed and engine speed, thus helping to reduce truck fuel consumption and hence carbon emissions as well. In addition, our drivers in Germany and the United Kingdom are provided with road training and regular feedback on their driving behavior.

Sustainable business models

Climate goals until 2030 validated by SBTi

Back in 2020, Klöckner & Co was one of the first companies in Germany to sign up to the UN Global Compact initiative "Business Ambition for 1.5°C." In aligning its business activities with science-based targets, the Company aims to do its part to reduce global warming to 1.5°C through appropriate measures. Klöckner & Co is committed to halving its directly controllable Scope 1 and Scope 2 emissions by 2030. With regard to Scope 3 emissions in our direct control (such as from business travel and commuting), we are likewise going to achieve a 50% reduction by 2030. We look at the entire supply chain – including Scope 3 emissions not in our direct control. We will achieve a 30% reduction of these carbon emissions by as early as 2030. The Science Based Targets initiative (SBTi) has recognized our near-term emission reduction targets for 2030 as science-based targets. Klöckner & Co additionally plans to reduce all directly controllable carbon emissions (Scope 1, Scope 2 and directly controllable Scope 3 emissions) to net zero by as early as 2040. Scope 3 emissions that we can only control indirectly – primarily from externally sourced steel products – are to be cut to net zero by 2050.

Many measures that enable the Group to operate more sustainably and help to reduce our emissions were launched and implemented during the reporting year. Our efforts in digitalization and our platform strategy support our climate ambitions, as they will enable us to anticipate steel demand with ever greater accuracy and further optimize logistics, thus reducing carbon emissions. The corporate departments Strategic Sustainability and Digital Transformation are managing the project based on this approach. Our CEO is functionally responsible for both areas. The entire Management Board is also kept informed of progress of the project by the department heads.

In October, Klöckner & Co SE entered into partnership with the Swedish start-up H2 Green Steel (H2GS), taking a further step in establishing its position as a pioneer in a sustainable steel industry. With this move, we secured unparalleled access to substantial quantities of "green steel." The steel is considered to be almost free of carbon emissions because production at H2GS reduces gross carbon emissions by more than 95% relative to conventional production. This cooperation has enabled Klöckner & Co to significantly expand its portfolio of sustainable products and services. With the new arrangement, the Company is seizing the strategic opportunity to integrate new, attractive green steel into our business model. The addition of green steel to its product portfolio yet again underscores Klöckner & Co's commitment to a more sustainable economy.

Kloeckner Metals UK has completely changed the way wood and pallets are used at the Blackburn site. The pallets are now made in-house, and potential for savings and recycling was also pinpointed. Wood scraps produced can be reused for stacking steel when loading vehicles. In addition, thanks to an incentive system for truck drivers, our pallets are now collected for reuse or recycling. Becker Stahl-Service has also introduced a pallet return system. In the past, the pallets used to transport goods were disposed of after a single use.

As part of our energy management efforts, we intend to increasingly convert to alternative energy sources. We have already centralized energy procurement and aim to transition to 100% green energy. Some sites have already made the change. Solar systems are planned for several sites.

Our approach to water management ensures adherence to local legislation and standards. Since we use virtually no water in our processing, our water consumption chiefly results in conventional wastewater. As a matter of principle, we take care to use resources responsibly and protect the environment, as described in our SHEQ policy. Wastewater is also part of the OHSAS 18001 and ISO 45001 standards, to which the majority of our sites are certified. In addition, we comply with water budgeting legislation and water testing.

We are also constantly working on ways to lower carbon emissions related to our employees' mobility. We published an updated travel expense policy that no longer permits domestic flights within Europe and budgets for compensation for all flights longer than 1,500 kilometers; this policy took effect on October 1. Our hybrid working concept (target: 30% remote work for administrative positions) has already been introduced and should also lower the emissions associated with commuting. In addition, we will be replacing the vehicles in our fleet in stages. In terms of e-mobility and hybrid vehicles, several country organizations have begun efforts to replace company cars and pool vehicles that run on gasoline and diesel. Kloeckner Metals France, for instance, plans to transition entirely to full hybrids and has already begun implementation, while Kloeckner Metals UK offers electric and hybrid vehicles through an employee bonus program. Becker Stahl-Service has purchased electric company cars. The holding company has installed charging stations at its headquarters, with more planned for 2022. The company-car policy, which sets out the framework for Europe, is currently being updated to encourage future mobility concepts. In addition, options for trucks with alternative drive systems are being tested in pilot projects in internal logistics.

Klöckner & Co already carbon-neutral today

Our focus is on avoiding and reducing emissions. To achieve that, we have set ambitious climate targets. However, given today's technological capabilities for reducing emissions or even removing them from the atmosphere, we are not yet able to avoid all emissions at the present time. For this reason, in addition to our reduction measures, we are fully compensating all of our Scope 1 and 2 carbon emissions starting in 2022. With our compensating activities, we support high-quality, certified renewable energy and energy efficiency projects that demonstrably prevent greenhouse gas emissions that would otherwise be generated. In addition, such projects also benefit local communities. Thanks to initiatives such as these, Klöckner & Co has already achieved carbon neutrality with regard to its own business activities.

DIGITALIZATION

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

Klöckner & Co's transformation toward digitalization and automation

Building on our pioneering role in the steel industry, we are further exploiting the significant potential of digitalization – and are now extending it to include the level of automation. We continue to develop innovative digital solutions and digitalize our internal core processes. With seamless, end-to-end process integration featuring a very high degree of digitalization and automation, we can take process speed and efficiency to high levels along the entire value chain.

Besides the systematic digitalization of internal and external processes, an essential component of this digital transformation is a profound cultural shift within the Company. Our employees therefore need to incrementally develop their digital mindset, which is crucial to our shared migration to Industry 4.0. All members of the Klöckner & Co SE Management Board are working together to advance our transformation into a digital platform enterprise. However, the CEO has particular responsibility for strategy implementation and receives regular status and progress updates from the relevant functional managers.

"New kloeckner.i": bundling the forces for transformation

Ever since its establishment in 2014, the digital unit kloeckner.i has worked with the Group IT and Digital Transformation departments to launch many key projects for Klöckner & Co's digital transformation. This enabled us to play a pioneering role in the steel industry at an early stage. These three previously independent units are now joining forces to become the "new kloeckner.i." In order to set ourselves apart from the competition even more pronouncedly, we are expanding our digitalization efforts and further automating our internal value chain. We will drive the successful transformation in our markets with results-focused innovation and the development of digital tools at the new kloeckner.i. Agility, cross-functional collaboration and employee empowerment are key prerequisites for a successful transformation and better performance. With all our innovative, transformative and IT competencies and services united under one roof, our operating units will benefit from more streamlined collaboration and faster development, time to launch and integration of feedback.

This restructuring gives the country organizations a central point of contact that provides not only operative business expertise but also support with the digital business transformation and advice on technical solutions. Three units operate within the new kloeckner.i: Transformation, Product and Engineering & IT. The business and process experts in Transformation cover procurement, sales, logistics and finance. They support the operating business through numerous activities such as conducting projects, developing more efficient processes and helping define the specifications for tools. The Product department defines digital product visions. In addition to providing technical customer service and expanding our e-commerce solutions on an ongoing basis, this department works on applications such as data-driven, algorithm-based pricing. Engineering focuses on the development and implementation of the technology strategy. Meanwhile, IT Infrastructure creates the framework for digital business processes by operating various systems and tools in the cloud or connecting them with one another via interfaces in order to ensure data flows and provide users with access to high-performance and, most importantly, secure systems.

In addition, during the summer, a new unit, kloeckner.i US, was set up in order to support the transformation of our US business. kloeckner.i US will focus on innovation and transformation and will be closely linked to the new kloeckner.i. Going forward, the aim is to drive international strategic visions and implementation plans to ensure that similar processes are defined for the same business areas. As a central point of contact, the new kloeckner.i will support the projects in these efforts by developing better target processes and highly standardized solutions to achieve a high degree of automation.

Digital skills for all staff

To ensure that everyone embraces and sees themselves as part of the changes, we have prepared a broad range of measures offering all employees the opportunity to acquire digital know-how at their own speed. Employees have access to job-specific, in-house training and language courses via our Group-wide Digital Academy in order to selectively broaden their digital skills. The academy offers numerous online courses for users, mostly with the aim of enhancing these skills. In 2021, the Digital Academy Sales and Digital Academy Warehouse were integrated into the system, offering options specifically for employees in sales and operations.

Aggregate course registrations in the Digital Academy (rounded)

2019	2020	2021
3,600	9,000	13,000

Another key driver of our cultural change is in-depth internal communication to highlight for employees the need for digital transformation and to alleviate any concerns. As early as 2014, Klöckner & Co introduced the Yammer social network throughout the Company. Our employees use the hierarchy-free communications portal to exchange ideas, hold discussions and as a valuable information resource. The CEO invites all employees to engage in open dialog on Yammer and uses the tool – in addition, for instance, to regular board calls – as an information channel for actions such as communicating on the progress of our digital transformation. In order to enhance cooperation within the Group, promote agility and inspire enthusiasm for innovations, Klöckner & Co continued with the rollout and refinement of #DigiDesk in the reporting year. This lets the workforce make use of all Microsoft Office 365 applications via the cutting-edge intranet. The SharePoint environment also includes the Digital Academy and the employee magazine.

Agility is a key prerequisite for speeding up internal processes and responding instantly to customers' changing wishes – and thus gaining an edge over competitors in the marketplace. A wide range of courses, training and communications initiatives such as Yammer campaigns and posters have helped to establish agile working methods ever more firmly in the Group. The open learning format known as "Espresso Call," focusing on digital topics, is now firmly established. Held on Microsoft Teams, these live video sessions last 30–60 minutes each and feature experts who explain all the essentials of digital and strategic topics. All of these measures let us meet the challenges of digital transformation and forge a link between the internal cultural shift and the operational objectives of our strategy. The growing number of participants registered at our Digital Academy is testament to our employees' improved digital skills and new way of thinking. This is similarly reflected in the constructive suggestions and ideas put forward by employees with regard to optimizing the speed and quality of our processes.

CUSTOMERS

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

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

We aim to make precisely the products our customers need available to them when they need them. That is not always easy, considering the current pressure on supply chains and the wide range of applications.

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

Kloeckner Assistant automates the sales process

That is why, in keeping with the design thinking approach, we always conceptualize products and services, sales channels and innovations as well as the development of digital tools and applications from the customer's perspective. Accordingly, we actively involve our customers in the process and selectively analyze their personal wishes and needs. This enables us to fulfill customers' needs faster and more efficiently thanks to a variety of digital tools, which we continue to develop on an ongoing basis – applications such as the Kloeckner Assistant, which automates large parts of the administrative sales process. Further improvements were made to the AI-driven application in the reporting year which, as a result of the measures initiated, is expected to be able to digitalize and automate 80% of sales processes in the future. The improvements comprised an increase in the volume of PDF-based requests and orders processed both digitally and semi-automatically, full digital archiving in the SAP document archive, and a substantial improvement in data quality through smart, technical validations and machine learning. These measures are helping to speed up the processing of quotes and orders, and they lower the likelihood of incorrect shipments.

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

Our digital unit in Berlin, kloeckner.i, maintains regular contact with customers to obtain information on their requirements of the digital product portfolio and their level of satisfaction with it, and to develop it in line with their needs. Again in 2021, kloeckner.i worked continuously to further improve the range of digital product offerings and increase user friendliness. This includes new functions in the online shop that improve the user journey and make the customer experience more transparent. The new functions comprise a favorites list and optimized direct ordering. With the favorites list, customers can reach straight for the products they have chosen from the vast range and add them to their carts, which speeds up purchases. Thanks to the expansion of direct orders, customers can now submit their orders quickly and easily by uploading an Excel sheet that contains the item numbers and quantities they need. Both features make each purchase faster for the customer. In addition, the quote feature has been improved to enable customers to search for their specific item number, a function that was previously only available during ordering. Various delivery dates per item are now also displayed in each quote, along with extra information about the offering.

We launched Debrunner Acifer AG's new online shop in July. With our Swiss colleagues on board our e-commerce platform, we can now tap into further potential for optimization and expand the platform in order to offer our customers optimized services. The new platform includes a steel finder, a landing page with forms to make searching the product portfolio faster and easier, and a wide range of content pages.

Customer surveys

Over 75% of customers using the online shop are satisfied

In addition, international customers are regularly asked whether they are satisfied with the service provided by Klöckner & Co. The accumulated customer feedback helps to continuously improve the digital system landscape and workflows. In 2021, over 75% of online shop customers said they were very satisfied with Klöckner & Co. Some 250 responses were received internationally via all online shops at the country organizations, where surveys are conducted on an ongoing basis in which existing customers can give feedback. The results are evaluated by kloeckner.i and discussed internally as well as with the country organizations.

All customers of our German and Austrian country organizations are asked to give their opinions on various aspects through annual surveys. Aspects covered include availability, product range, product quality, product availability, the processing range, employee proficiency, delivery time, delivery punctuality, order documentation and complaint handling. The regular customer surveys we carry out in our country organizations help to ensure the effectiveness of our working approaches and gain insights into how they are being received.

Trend in customer satisfaction
Scale of 1 (very satisfied) to 6 (not at all satisfied)

	2019	2020	2021
Klöckner & Co Deutschland	2.25	1.84	1.84*
Kloeckner Metals Austria	1.75	1.75	2.05**

*1,453 respondents; **228 respondents

We use these surveys to constantly improve our systems and workflows and initiate measures to enhance customer loyalty. For Klöckner & Co, satisfied customers pave the way for sustained growth. So it is all the more gratifying when our customers appreciate the work we do. In November, the global building services company Johnson Controls honored Kloeckner Metals Corporation (KMC) with a Leadership Award in Shareholder Value for long-term collaboration based on trust. The award is testament to the engagement of the KMC team, who continually drive improvements and innovations with Johnson Controls and enhance shareholder value.

Independent Practitioner’s Report on a Limited Assurance Engagement on Non-financial Reporting

To Klöckner & Co SE, Duisburg

We have performed a limited assurance engagement on the separate non-financial group report of Klöckner & Co SE, Duisburg, (hereinafter the “Company”) for the period from 1 January to 31 December 2021 (hereinafter the “Separate Non-financial Group Report”).

Responsibility of the Executive Directors

The executive directors of the Company are responsible for the preparation of the Separate Non-financial Group Report in accordance with §§ (Articles) 315c in conjunction with 289c to 289e HGB ("Handelsgesetzbuch": "German Commercial Code") and Article 8 of REGULATION (EU) 2020/852 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 18. June 2020 on establishing a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088 (hereinafter the "EU Taxonomy Regulation") and the Delegated Acts adopted thereunder, as well as for making their own interpretation of the wording and terms contained in the EU Taxonomy Regulation and the Delegated Acts adopted thereunder, as set out in section “EU taxonomy“ of the Separate Non-financial Group Report.

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

The EU Taxonomy Regulation and the Delegated Acts issued thereunder contain wording and terms that are still subject to considerable interpretation uncertainties and for which clarifications have not yet been published in every case. Therefore, the executive directors have disclosed their interpretation of the EU Taxonomy Regulation and the Delegated Acts adopted thereunder in section “EU taxonomy“ of the Separate Non-financial Group Report. They are responsible for the defensibility of this interpretation. Due to the immanent risk that indeterminate legal terms may be interpreted differently, the legal conformity of the interpretation is subject to uncertainties.

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

Responsibility of the Assurance Practitioner
Our responsibility is to express a conclusion with limited assurance on the Separate Non-financial Group Report based on our assurance engagement.

We conducted our assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the IAASB. This Standard requires that we plan and perform the assurance engagement to obtain limited assurance about whether any matters have come to our attention that cause us to believe that the Company's Separate Non-financial Group Report, other than the external sources of documentation or expert opinions mentioned in the Separate Non-financial Group Report, are not prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB and the EU Taxonomy Regulation and the Delegated Acts issued thereunder as well as the interpretation by the executive directors disclosed in section "EU taxonomy" of the Separate Non-financial Group Report.

In a limited assurance engagement the procedures performed are less extensive than in a reasonable assurance engagement, and accordingly a substantially lower level of assurance is obtained. The selection of the assurance procedures is subject to the professional judgement of the assurance practitioner.

In the course of our assurance engagement, we have, amongst other things, performed the following assurance procedures and other activities:

- Gain an understanding of the structure of the Company's sustainability organisation and stakeholder engagement
- Inquiries of the executive directors and relevant employees involved in the preparation of the Separate Non-financial Group Report about the preparation process, about the internal control system relating to this process and about disclosures in the Separate Non-financial Group Report
- Identification of likely risks of material misstatement in the Separate Non-financial Group Report
- Analytical procedures on selected disclosures in the Separate Non-financial Group Report
- Reconciliation of selected disclosures with the corresponding data in the consolidated financial statements and group management report
- Evaluation of the presentation of the Separate Non-financial Group Report
- Evaluation of the process to identify taxonomy-eligible economic activities and the corresponding disclosures in the Separate Non-financial Group Report

In determining the disclosures in accordance with Article 8 of the EU Taxonomy Regulation, the executive directors are required to interpret undefined legal terms. Due to the immanent risk that undefined legal terms may be interpreted differently, the legal conformity of their interpretation and, accordingly, our assurance engagement thereon are subject to uncertainties.

Assurance Opinion

Based on the assurance procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the Separate Non-financial Group Report of the Company for the period from 1 January to 31 December 2021 is not prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB and the EU Taxonomy Regulation and the Delegated Acts issued thereunder as well as the interpretation by the executive directors disclosed in section "EU taxonomy" of the Separate Non-financial Group Report. We do not express an assurance opinion on the external sources of documentation or expert opinions mentioned in the Separate Non-financial Group Report.

Restriction of Use

We draw attention to the fact that the assurance engagement was conducted for the Company's purposes and that the report is intended solely to inform the Company about the result of the assurance engagement. Consequently, it may not be suitable for any other purpose than the aforementioned. Accordingly, the report is not intended to be used by third parties for making (financial) decisions based on it. Our responsibility is to the Company. We do not accept any responsibility to third parties. Our assurance opinion is not modified in this respect.

Frankfurt, March 1, 2022

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Nicolette Behncke
WIRTSCHAFTSPRÜFERIN
[German public auditor]

ppa. Juliane von Clausbruch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GROUP FINANCIAL STATEMENTS

of Klöckner & Co SE

Consolidated financial statements

Consolidated statement of income

for the 12-month period ending December 31, 2021

(€ thousand)	Notes	2021	2020
Sales	7	7,440,863	5,130,106
Changes in inventory	17	42,023	926
Own work capitalized	16	2,156	1,806
Other operating income	8	52,096	23,823
Cost of materials	9	– 5,590,010	– 4,083,804
Personnel expenses	10	– 597,858	– 599,726
Depreciation and amortization	16	– 124,202	– 131,757
Impairment losses of intangible assets and property, plant and equipment	16	– 2,770	– 14,024
Reversals of impairments of intangible assets and property, plant and equipment	16	2,562	-
Other operating expenses	11	– 470,361	– 420,992
Operating result		**754,499**	**– 93,642**
Income from investments	**12**	**10,517**	**300**
Finance income		8,323	803
Finance expenses		– 25,443	– 31,286
Financial result	**13**	**– 17,120**	**– 30,483**
Income before taxes		**747,896**	**– 123,825**
Income taxes	14	– 118,559	9,462
Net income		**629,336**	**– 114,363**
thereof attributable to			
– shareholders of Klöckner & Co SE		*618,971*	*– 115,927*
– non-controlling interests		*10,365*	*1,564*
Earnings per share (€/share)	15		
– basic		6.21	– 1.16
– diluted		5.58	– 1.16

Statement of comprehensive income

for the 12-month period ending December 31, 2021

(€ thousand)	Notes	2021	2020
Net income		**629,336**	**– 114,363**
Other comprehensive income not reclassifiable			
Actuarial gains and losses (IAS 19)	24	100,300	8,396
Related income tax	14	– 8,933	– 3,682
Gain/loss from equity instruments	30	-	– 490
Total		**91,367**	**4,224**
Other comprehensive income reclassifiable			
Foreign currency translation		65,280	– 27,796
Total		**65,280**	**– 27,796**
Other comprehensive income		**156,647**	**– 23,572**
Total comprehensive income		**785,983**	**– 137,935**
thereof attributable to			
– shareholders of Klöckner & Co SE		*775,587*	*– 139,474*
– non-controlling interests		*10,396*	*1,539*

Consolidated statement of financial position

as of December 31, 2021

ASSETS

(€ thousand)	Notes	December 31, 2021	December 31, 2020
Non-current assets			
Intangible assets	16 (a)	97,389	109,085
Property, plant and equipment	16 (b)	760,354	743,770
Other financial assets	19	27,622	19,448
Other non-financial assets	19	172,917	49,348
Current income tax receivable	14	5,429	1,887
Deferred tax assets	14	35,578	8,324
Total non-current assets		**1,099,287**	**931,862**
Current assets			
Inventories	17	1,715,723	855,591
Trade receivables	18	843,284	517,372
Contract assets	18	41,861	25,954
Commissions, discounts and rebate receivables	18	55,543	43,253
Current income tax receivable	14	1,225	18,927
Other financial assets	19	20,875	14,876
Other non-financial assets	19	38,182	23,542
Cash and cash equivalents	20	57,628	172,566
Assets held for sale	21	4,154	9,011
Total current assets		**2,778,475**	**1,681,092**
Total assets		**3,877,762**	**2,612,954**

EQUITY AND LIABILITIES

(€ thousand)	Notes	December 31, 2021	December 31, 2020
Equity			
Subscribed capital		249,375	249,375
Capital reserves		568,729	568,729
Retained earnings		854,894	235,923
Accumulated other comprehensive income		138,619	– 17,997
Equity attributable to shareholders of Klöckner & Co SE		**1,811,616**	**1,036,030**
Non-controlling interests		15,731	7,108
Total equity	**22**	**1,827,348**	**1,043,138**
Non-current liabilities			
Provisions for pensions and similar obligations	24	50,024	287,542
Other provisions and accrued liabilities	25	17,352	15,644
Non-current financial liabilities	26	556,446	334,038
Other financial liabilities	28	137	2,313
Deferred tax liabilities	14	63,140	43,321
Total non-current liabilities		**687,099**	**682,858**
Current liabilities			
Other provisions and accrued liabilities	25	148,022	138,742
Income tax liabilities	14	29,690	7,397
Current financial liabilities	26	260,649	186,617
Trade payables	27	838,149	472,406
Other financial liabilities	28	32,625	25,641
Non-financial contract liabilities	28	5,099	1,829
Advance payments received	28	939	983
Other non-financial liabilities	28	48,141	53,342
Total current liabilities		**1,363,315**	**886,958**
Total liabilities		**2,050,414**	**1,569,816**
Total equity and liabilities		**3,877,762**	**2,612,954**

Consolidated statement of cash flows 2021

(€ thousand)	Notes	2021	2020
Net income		629,336	– 114,363
Income taxes	14	118,559	– 9,462
Financial result	13	17,120	30,483
Income from investments		–10,517	– 300
Depreciation, amortization of and reversal and impairment losses of non-current assets	16	124,410	145,781
Other non-cash income/expenses		751	191
Gain on disposal of non-current assets	11	– 26,876	– 2,336
Change in net working capital			
Inventories	17	–802,219	155,599
Trade receivables incl. contract assets and Commissions, discounts and rebates receivables	18	–316,952	61,839
Trade payables incl. contract liabilities and advance payments	27, 28	336,590	– 100,655
Change in other operating assets and liabilities		–258,864	23,170
Interest paid	34	– 20,069	– 23,560
Interest received		588	748
Income taxes paid		– 97,624	– 6,152
Cash flow from operating activities		**– 305,767**	**160,983**
Proceeds from the sale of non-current assets		22,446	19,333
Proceeds from the sale of financial assets		9,999	-
Dividends received		998	-
Payments for intangible assets, property, plant and equipment		– 84,944	– 76,077
Payments for financial assets		– 8,430	– 5,312
Cash flow from investing activities		**– 59,931**	**– 62,056**
Dividend payments to non-controlling interests		– 1,773	– 1,393
Borrowings	34	333,531	59,627
Repayment of financial liabilities	34	– 24,798	– 135,139
Repayment of leasing liabilities	34	– 47,190	– 45,668
Proceeds from derivates of financing activities		– 11,222	18,102
Cash flow from financing activities		**248,548**	**– 104,471**
Changes in cash and cash equivalents		**– 117,150**	**– 5,544**
Effect of foreign exchange rates on cash and cash equivalents		2,212	– 4,410
Cash and cash equivalents at the beginning of the period	20	172,566	182,520
Cash and cash equivalents at the end of the reporting period as per statement of financial position		**57,628**	**172,566**

See Note 34 for notes on the cash flow statement.

Summary of changes in consolidated equity

(€ thousand)	Subscribed capital of Klöckner & Co SE	Capital reserves of Klöckner & Co SE	Retained earnings	
Balance as of January 1, 2020	**249,375**	**575,060**	**345,569**	
Other comprehensive income				
Foreign currency translation	-	-	-	
Gain/loss from equity instruments	-	-	-	
Actuarial gains and losses (IAS 19)	-	-	-	
Related income tax	-	-	-	
Other comprehensive income	**-**	**-**	**-**	**-**
Net income	-	-	– 115,927	
Total comprehensive income	**-**	**-**	**– 115,927**	
Change of non-controlling interests	-	-	– 50	
Dividends	-	-	-	
Withdrawal from capital reserves	-	– 6,331	6,331	
Balance as of December 31, 2020	**249,375**	**568,729**	**235,923**	
Balance as of January 1, 2021	**249,375**	**568,729**	**235,923**	
Other comprehensive income				
Foreign currency translation	-	-	-	
Actuarial gains and losses (IAS 19)	-	-	-	
Related income tax	-	-	-	
Other comprehensive income	**-**	**-**	**-**	
Net income	-	-	618,971	
Total comprehensive income	**-**	**-**	**618,971**	
Dividends	-	-	-	
Balance as of December 31, 2021	**249,375**	**568,729**	**854,894**	

Accumulated other comprehensive income					
Currency translation adjustments	Actuarial gains and losses (IAS 19)	Fair value adjustments of financial instruments	Equity attributable to shareholders of Klöckner & Co SE	Non-controlling interests	Total
174,259	**– 164,628**	**– 4,081**	**1,175,554**	**6,912**	**1,182,466**
– 27,782	-	-	– 27,782	– 14	– 27,796
-	-	– 490	– 490	-	– 490
-	8,416	-	8,416	– 20	8,396
-	– 3,691	-	– 3,691	9	– 3,682
– 27,782	**4,725**	**– 490**	**– 23,547**	**– 25**	**– 23,572**
-	-	-	– 115,927	1,564	– 114,363
– 27,782	**4,725**	**– 490**	**– 139,474**	**1,539**	**– 137,935**
-	-	-	– 50	50	-
-	-	-	-	– 1,393	– 1,393
-	-	-	-	-	-
146,477	**– 159,903**	**– 4,571**	**1,036,030**	**7,108**	**1,043,138**
146,477	**– 159,903**	**– 4,571**	**1,036,030**	**7,108**	**1,043,138**
65,264	-	-	65,264	16	65,280
-	100,280	-	100,280	20	100,300
-	– 8,928	-	– 8,928	– 5	– 8,933
65,264	**91,352**	**-**	**156,616**	**31**	**156,647**
-	-	-	618,971	10,365	629,336
65,264	**91,352**	**-**	**775,587**	**10,396**	**785,983**
-	-	-	-	– 1,773	– 1,773
211,741	**– 68,551**	**– 4,571**	**1,811,616**	**15,731**	**1,827,348**

Notes to the consolidated financial statements

of Klöckner & Co SE, Duisburg, as of December 31, 2021

(1) Company information

Klöckner & Co SE is a listed corporation domiciled at Am Silberpalais 1, Duisburg, Germany and entered in the commercial register of Duisburg Local Court under HRB 20486.

The consolidated financial statements of Klöckner & Co SE, as the ultimate parent company, and its subsidiaries (the Klöckner & Co Group) were authorized for submission to the Supervisory Board by resolution of the Management Board on March 1, 2022 The Supervisory Board's responsibility is to examine the consolidated financial statements and to issue a statement as to whether it approves them.

(2) Basis of accounting

The consolidated financial statements as of December 31, 2021 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and with the additional requirements under Section 315e (1) of the German Commercial Code (Handelsgesetzbuch/HGB). All binding IFRS and the associated interpretations of the IFRS Interpretations Committee (IFRIC) as of December 31, 2021 have been applied.

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

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

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

(3) Basis of consolidation and consolidation methods

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

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

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

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

	2021	2020
Consolidated entities at the beginning of the financial year*)	59	65
– mergers	– 4	– 5
– disposals and liquidations	– 2	– 1
Consolidated entities at the end of the financial year	**53**	**59**
thereof domestic entities including Klöckner & Co SE	*11*	*13*

*) Including consolidated special-purpose entities.

Four (2020: two) subsidiaries that do not have a significant impact on the Group's results of operations, financial position and net assets are not consolidated. A further subsidiary acquired in 2021 is not consolidated because the Klöckner & Co Group, by contractual agreement, has no influence on the subsidiary's business decisions. A list of affiliated companies included in the consolidated financial statements is attached as an annex to the notes.

Special-purpose entities

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

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

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

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

For further information on the ABS program, see Note 18 (Trade receivables) and Note 26 (Financial liabilities).

(4) Acquisitions and disposals

The group structure changed, as listed below, as a result of the following acquisitions and disposals during fiscal years 2021 and 2020, with corresponding impacts on the presentation of the results of operations, financial position and net assets.

ACQUISITIONS

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

DISPOSALS, MERGERS AND LIQUIDATIONS IN 2021

A merger was carried out in Switzerland on January 18, 2021. Debrunner Koenig Management AG, St. Gallen was merged with Debrunner Koenig AG, St. Gallen effective January 1, 2021.

Richardsons Westgarth (Hartlepool) Limited, Leeds, United Kingdom was liquidated effective April 29, 2021.

On October 29, 2021, Kloeckner Metals Operations GmbH, Duisburg, Germany and Kloeckner & Co USA Beteiligungs GmbH, Duisburg, Germany were merged with Klöckner Shared Services GmbH, Duisburg, Germany effective January 1, 2021.

Klöckner & Co Financial Services B.V., Rotterdam, Netherlands, was liquidated on December 23, 2021.

Klöckner Namasco Holding Corporation, Wilmington, Delaware, USA was merged with Kloeckner Metals Corporation, Wilmington, Delaware, USA as of December 31, 2021.

2020

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

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

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

(5) Significant accounting policies

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

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

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

	Closing rate		Average rate	
€1=	December 31, 2021	December 31, 2020	Jan. 1 - Dec. 31, 2021	Jan. 1 - Dec. 31, 2020
Pound Sterling (GBP)	0.8403	0.8990	0.8596	0.8897
Swiss Franc (CHF)	1.0331	1.0802	1.0812	1.0705
US–Dollar (USD)	1.1326	1.2271	1.1827	1.1422

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

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

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

For CGUs whose recoverable amount is less than their carrying amount, fair values are determined at the level of individual assets. Detailed information is provided in Note 16 (b) (Property, plant and equipment). Depending on future changes in those fair values, additional impairment losses and impairment reversals cannot be ruled out.

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

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

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

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

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

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

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

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

	Note
Judgements	
– Determination of scope of consolidation in relation to special-purpose entities, where there is no majority of voting rights or capital	3
– Assessment of intangible assets and property, plant and equipment for triggering events for an impairment	16 (a), (b), (c)
Estimates and assumptions	
– Measurement of intangible assets and property, plant and equipment acquired in a business combination within the meaning of IFRS 3	4
– Measurement of the net realizable value for inventories	17
– Recognition and Measurement of tax receivables related to the estimation if sufficient taxable income is available	14
– Assumptions regarding discount rates, mortality rates and, where applicable, expected returns on plan assets for the measurement of provision for pensions and similar obligations	24
– Recognition and measurement of other provisions	25

Accounting effects of the COVID-19 pandemic

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

	Note
Estimates and assumptions	
- Assumptions on the duration and impact of the pandemic in connection with the forecast of cash flows for the impairment test according to IAS 36	16
- Assumptions in relation to impairment of deferred taxes on losses carried forward IAS 12	14
- Estimation of future probabilities of default when calculating expected credit losses for trade receivables in accordance with IFRS 9	31

It should be noted in this connection that as a result of the increasing vaccination rate and the easing of global COVID-19 restrictions, the economic situation improved significantly in 2021 and there was a substantially smaller impact than in fiscal year 2020 on the corporate planning for 2021, which is used for cash flow planning in impairment tests and for assessing the recoverability of deferred tax assets.

Allowances for short-time work and similar aid

2021

During the COVID-19 pandemic, governments have offered various state aid packages to companies. In the United Kingdom, a total of €60 thousand was received in 2021 under the Coronavirus Job Retention Scheme (CJRS) to pay the wages of employees furloughed due to the coronavirus (COVID-19).

2020

Klöckner & Co implemented short-time work programs in some countries in 2020. However, affected employees receive between 80% and 100% of their regular salaries while working reduced hours. Employers are reimbursed in full or in part for the personnel expenses associated with the lost working time. This relieved personnel expenses in 2020 by €5 million.

Approximately 881 employees were affected at Klöckner & Co in fiscal year 2020. As of December 31, 2020, the Company was entitled to claim state aid amounting to €98 thousand.

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

New accounting standards and interpretations
The following standards were applied for the first time in fiscal year 2021:

Standard/Interpretation
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2
Amendments to IFRS 4 – Extension of the Temporary Exemption from Applying ("Deferral of IFRS 9") IFRS 9
Amendments to IFRS 16 – COVID 19-Related Rent Concessions

On August 27, 2020, the IASB published Interest Rate Benchmark Reform—Phase 2 (Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16). The amendments in Interest Rate Benchmark Reform Phase 2 – amendments to IFRS 9 (Financial Instruments), IAS 39 (Financial Instruments: Recognition and Measurement), IFRS 7 (Financial Instruments: Disclosures), IFRS 4 (Insurance Contracts) and IFRS 16 (Leases) – complement the Phase 1 amendments and generally apply when a benchmark rate is replaced by an alternative benchmark rate. They affect the following aspects in particular with regard to accounting for financial instruments:

- In the event of changes in contractual cash flows, the amendments do not always require the carrying amount of financial instruments to be recalculated or financial instruments to be derecognized. Instead, in certain circumstances, the effective interest rate may be adjusted to reflect the transition to the alternative benchmark rate.

- With regard to hedge accounting, the amendments stipulate that in certain circumstances is not necessary for a hedging relationship designated for hedge accounting purposes to be discontinued because of changes required by a benchmark rate reform.

- Disclosures are required as to new risks arising as a result of the reform and how the transition to alternative benchmark rates is managed. In addition to amendments to IFRS 9, IAS 39 and IFRS 7, the IASB also adopted minor amendments to IFRS 4 and IFRS 16.

On June 25, 2020, the IASB published Amendments to IFRS 4: "Extension of the Temporary Exemption from Applying IFRS 9." The amendments to IFRS 4 aim to address the temporary accounting consequences of the different effective dates of IFRS 9 Financial Instruments and the forthcoming IFRS 17 Insurance Contracts. In particular, the amendments extend the expiry date of the temporary exemption from applying IFRS 9 until 2023 in order to align the effective date of IFRS 9 with the new IFRS 17.

On May 28, 2020, the IASB published COVID-19-related Amendments to IFRS 16. IFRS 16 specifies how lessees should account for changes in lease payments, including rent concessions. Lessees normally have to consider individual lease contracts to determine whether rent concessions are lease modifications and, if applicable, must remeasure the lease liability accordingly. The amendments to IFRS 16 provide a practical expedient, application of which is subject to certain conditions and to a limited period. Under the practical expedient, lessees do not have to account for rent concessions relating to the COVID-19 pandemic in accordance with the rules for lease modifications and may account for them as if they were not lease modifications.

Application of the amendments had no material impact on the interim consolidated financial statements of Klöckner & Co SE.

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

Standard/Interpretation	Mandatory application
Endorsed by the EU until authorization date for issuance	
Amendments to IFRS 16 – COVID-19-Related Rent Concessions beyond 30 June 2021	2022
Amendments to IFRS 3 – Reference to the Conceptual Framework	2022
Amendments to IAS 16 – Property, Plant and Equipment - Proceeds before Intended Use	2022
Amendments to IAS 37 – Onerous Contracts – Cost of Fulfilling a Contract	2022
Improvements to IFRS 1, IFRS 9, IFRS 16 and IAS 41	2022
IFRS 17 – Versicherungsverträge	2023
EU endorsement outstanding	
Improvements to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	undefined
Amendments to IAS 1 (including Deferral of Effective Date) – Classification of Liabilities as Current or Non-current	2023
Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies	2023
Amendment to IAS 8 – Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates	2023
Amendments to IAS 12 – Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	2023
Amendment to IFRS 17 – Initial Application of IFRS 17 and IFRS 9 – Comparative Information	2023

On March 31, 2020, the IASB published Amendments to IFRS 16: COVID-19-Related Rent Concessions beyond 30 June 2021. In response to the ongoing impacts of the COVID-19 pandemic, IFRS 16 Leases was amended to extend by one year the practical expedient providing lessees with relief in accounting for COVID-19-related rent concessions. The amendments extend the practical expedient for rent concessions that reduce lease payments originally due on or before June 30, 2022. Previously, the practical expedient only applied for rent concessions that reduced lease payments due on or before June 30, 2021. The amendments are effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted.

On May 14, 2020, the IASB published Amendments to IFRS 3: Reference to the Conceptual Framework. The new Conceptual Framework was accompanied by amendments to references to the Conceptual Framework in various standards, including in IFRS 3. There is no substantive change to the accounting rules for business combinations. The amendments apply to business combinations for which the acquisition date is on or after January 1, 2022. Earlier application is permitted.

The amendments to IAS 16 Property, Plant and Equipment – Proceeds before Intended Use clarify that proceeds received by an entity from the sale of items produced while preparing an asset for its intended use (such as product samples), and the related costs, are to be recognized in profit or loss. It is not allowed for such amounts to be accounted for in the cost of the asset. The amendments are effective for annual periods beginning on or after January 1, 2022. Early application of the amendments is permitted.

On May 14, 2020, the IASB published Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract. The amendments specify what costs an entity is to include for the purpose of assessing whether a contract is onerous. They specify that the costs of fulfilling a contract comprise all costs that relate directly to the contract. These include both incremental costs of fulfilling the contract and other costs directly attributable to the contract. The amendments are effective for annual periods beginning on or after January 1, 2022. Early application of the amendments is permitted.

The Annual Improvements to IFRS 2018–2020 made amendments to the following standards:

An amendment to IFRS 1 permits a subsidiary that is a first-adopter and that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent.

The amendment to IFRS 9 clarifies which fees an entity includes when it applies the 10% test (paragraph B3.3.6 of IFRS 9) in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity and the lender.

In IFRS 16, an amendment to Illustrative Example 13 accompanying IFRS 16 removes the illustration of the reimbursement of leasehold improvements by the lessor.

In IAS 41, the requirement for entities to exclude taxation cash flows when measuring fair value is removed.

The amendments are effective for annual periods beginning on or after January 1, 2022. Early application of the amendments is permitted.

IFRS 17 replaces IFRS 4 and, for the first time, stipulates uniformly on recognition, measurement and presentation of and notes disclosures for insurance contracts, reinsurance contracts and discretionary investment contracts. According to the IFRS 17 measurement model, groups of insurance contracts are measured on the basis of the expected value of discounted cash flows with an explicit risk adjustment for non-financial risk and a contractual service margin that results in the recognition of profit in accordance with service performance.

Instead of premium income, the changes from the liability for insurance coverage for which the insurer receives a fee and the portion of the premiums that cover the acquisition costs are recognized in each period as “insurance revenue”. Cash flows from savings components are not recognized in profit or loss as sales or income/expense. Financial insurance income and expense result from discounting effects and financial risks. They can be recognized either in profit or loss or in other comprehensive income for each portfolio.

Changes in assumptions not relating to interest rates or financial risk are not recognized directly in profit or loss but posted against the contractual service margin and thus allocated over the term of the services still to be performed. Changes in estimates are recognized immediately only for onerous groups of insurance contracts.

IFRS 17 provides for an approximation method for short-duration contracts under which the liability for insurance coverage is recognized as before by way of unearned premiums. Liabilities from claims incurred but not yet settled must be discounted under IFRS 17 at current interest rates. For large parts of life insurance business with participation contracts, IFRS 17 modifies the general measurement model by additionally including in the contractual service margin the changes in the shareholder portion of the development of income sources underlying the participation contracts and allocating them over the remaining duration of the provision of service.

If retroactive application is not possible, the contractual service margin at the transition date can be determined using a modified retroactive method or by comparing the expected value of the discounted cash flows and risk adjustment with the fair value at the transition date.

The June 2020 amendments defer the initial application of IFRS 17 from January 1, 2021 by two years to January 1, 2023.

The exemption from initial application of IFRS 9 for insurers is likewise deferred to January 1, 2023, thus allowing both standards to be applied for the first time at the same date.

The remainder of the amendment mainly relate to the following areas:

– Accounting for certain means of payment (such as credit cards) (scope exclusion or separation of insurance component) and loans (option to apply either IFRS 17 or IFRS 9) that provide insurance coverage

– Recognition of profits not only in accordance with insurance coverage provided, but additionally in accordance with investment management services provided

– Allocation of acquisition cash flows additionally to expected renewals beyond the limits of the original contract

– Extension of the risk mitigation to include not only derivatives, but also reinsurance contracts and non-derivative financial instruments

– Presentation of insurance contract assets and liabilities using portfolios of insurance contracts rather than groups of insurance contracts

– Provision for recognition of gains on reinsurance of onerous contracts to the extent that they cover the onerous contracts

– Accounting for insurance contracts acquired in a business combination before the IFRS 17 transition date.

The amendments are effective for annual periods beginning on or after January 1, 2023. Early application of the amendments is permitted.

The amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

IFRS 10 requires the gain or loss on the sale of a subsidiary to be recognized in full in profit or loss on loss of control. Under IAS 28.28 as it currently stands, however, the gain or loss on sale transactions between an investor and a jointly controlled entity that is accounted for by the equity method – an associate or joint venture – is only recognized to the extent of the unrelated investors' interests in the jointly controlled entity.

In the future, the full amount of the gain or loss from a transaction may only be recognized if the sold or contributed assets constitute a business within the meaning of IFRS 3. This applies to both share and asset deals. If the assets do not constitute a business, recognition is limited to the extent of the unrelated interests.

The IASB has postponed the initial application of the amendments indefinitely.

The amendments to IAS 1: Classification of Liabilities as Current or Non-current relate to a narrow-scope modification of the assessment criteria for classifying liabilities as current or non-current.

They clarify that the classification of liabilities as current or non-current is based on the entity's rights in existence at the end of the reporting period to defer settlement by at least twelve months. If such rights exist, the liability is classified as non-current. The right to defer settlement of the liability must be substantial. If the exercise of such a right is conditional on compliance with covenants, the conditions must be met at the end of the reporting period; if not, the liability is classified as current.

Classification of a liability is unaffected by management intentions or expectations as to whether the liability will actually be settled within twelve months of the end of the reporting period. Classification is solely based on the existence of rights at the end of the reporting period to defer settlement of the liability by at least twelve months. This also applies in the event of settlement within the subsequent events period.

In July 2020, the date of initial application was postponed by one year to annual periods beginning on or after January 1, 2023.

The amendments are therefore effective – subject to EU endorsement – for annual periods beginning on or after January 1, 2023. Early application of the amendments is permitted but fundamentally remains subject to EU endorsement.

The amendments to IAS 1: Disclosure of Accounting Policies require that only "material" accounting policies be presented in the notes. To be material, an accounting policy must relate to material transactions or other events and there must be a reason for disclosure. Such a reason may be, for example, that the accounting policy has been changed, is elective, is complex or requires significant judgments or was developed in accordance with IAS 8.10-11. Amendments to Practice Statement 2 accordingly show how the concept of materiality is applied to the disclosure of accounting policies. This places the focus in the future on entity-specific information in place of standardized information.

The amendments are effective – subject to EU endorsement – for annual periods beginning on or after January 1, 2023. Early application of the amendments is permitted but is subject to EU endorsement.

The amendments to IAS 8: Definition of Accounting Estimates help entities to distinguish between accounting policies and accounting estimates. For this purpose, an accounting estimate is defined in such a way that accounting estimates always relate to monetary amounts that are subject to measurement uncertainty. An entity uses measurement techniques and inputs to develop an accounting estimate. Measurement techniques include estimation techniques and valuation techniques.

The amendments are effective – subject to EU endorsement – for annual periods beginning on or after January 1, 2023. Early application of the amendments is permitted but is subject to EU endorsement.

The amendments to IAS 12 published on May 7, 2021: Deferred Tax related to Assets and Liabilities arising from a Single Transaction addresses previously existing uncertainties concerning the accounting for deferred tax related to leases and decommissioning or restoration liabilities.

Paragraph 15 of IAS 12 already provided for an initial recognition exemption in certain circumstances on the initial recognition of assets and liabilities. Under the exemption, no deferred tax is recognized in such cases. There was uncertainty in practice as to whether this exemption also applied to leases and decommissioning or restoration liabilities. To ensure consistent application of the standard, narrow-scope amendments have been issued for IAS 12.

Under these amendments, the initial recognition exemption no longer applies for transactions that give rise on initial recognition to equal taxable and deductible temporary differences, even if the other previously applicable criteria are met. The initial recognition exemption therefore ceases to apply in very specific instances. The amendments require deferred tax to be recognized on, for example, leases in lessee accounting and on decommissioning or restoration liabilities.

The amendments are effective – subject to EU endorsement – for annual periods beginning on or after January 1, 2023. Early application of the amendments is permitted but is subject to EU endorsement.

The amendments to IFRS 17: Initial Application of IFRS 17 and IFRS 9 – Comparative Information introduce the option of applying a classification overlay subject to certain conditions. This enhances the usefulness of comparative information on financial instruments in the year preceding the initial application of IFRS 17, meaning for 2022. A classification overlay may be applied to financial assets for which 2022 comparative information presented on simultaneous initial application of IFRS 17 and IFRS 9 has not been restated for IFRS 9. On application of a classification overlay, classification into IFRS 9 categories is based on the information available on the transition date, i.e., on how the entity plans to classify financial assets on initial application of IFRS 9. Comparative information is disclosed as if the IFRS 9 classification and measurement rules had already applied in the comparative period, with the exception of the impairment rules, where the classification overlay does not require disclosure in accordance with IFRS 9. Any difference between the previous carrying amount of a financial asset and the carrying amount that results from applying the classification overlay is recognized in equity.

The entity must also disclose the extent to which it has applied the classification overlay (for example, whether it has been applied to all financial assets disposed of in 2022) and whether and to what extent disclosure in accordance with the IFRS 9 impairment rules has been applied.

On initial application of IFRS 9 as of January 1, 2023, the transitional provisions under IFRS 9 must be applied irrespective of whether a classification overlay has been applied.

The amendments are effective – subject to EU endorsement – for annual periods beginning on or after January 1, 2023. Early application of the amendments is permitted but is subject to EU endorsement.

The Group currently expects no material effects on the consolidated financial statements of Klöckner & Co SE.

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

Notes to the consolidated statement of income

(6) Special items affecting the results

Comparability between the fiscal year 2021 results and the prior year is impacted by the following material one-off effects:

(€ thousand)	2021	2020
Material property disposal gains	26,798	-
Gains on restructuring (2020: restructuring expenses)		
– Inventory adjustments	630	– 4,535
– Personnel measures	2,941	– 46,718
– Other gains on restructuring (2020: restructuring expenses)	48	– 7,307
EBITDA impact	**30,417**	**– 58,560**
Reversals of asset impairments related to restructuring (2020: Restructuring related asset impairments)	739	– 12,648
EBT impact	**31,156**	**– 71,208**

2021

Restructuring expenses under the Surtsey project

Further measures were implemented as part of the Surtsey project in the 2021 reporting year. This led to a further site closure and a further reduction in the workforce, bringing the total workforce reduction to 1,147 full-time equivalents by the end of 2021.

Progress with the measures enabled individual restructuring provisions to be reversed in fiscal year 2021. Implementation of a small number of measures will continue into 2022.

Sale of property, plant and equipment under the Surtsey project

Ten properties were sold in 2021 that were no longer needed as a result of the site closures as part of the Surtsey project. This resulted in a total of €27 million in book gains on disposal divided among the Kloeckner Metals US (€2 million), Kloeckner Metals EU (€22 million) and Kloeckner Metals Non-EU (€3 million) segments.

Accounting effects of the COVID-19 pandemic

With regard to effects of the COVID-19 pandemic, please see the information in Notes 5 (Significant accounting policies), 16 (Intangible assets and property, plant and equipment), 31 (Financial risk management) and, in addition, the commentary on the results of operations, financial position and net assets.

2020

Restructuring expenses under the Surtsey project

The Surtsey project was launched in fiscal year 2020 to sustainably improve the site network and enable the sales organization to concentrate on selling our products and attracting new customers. In this connection, restructuring expenses were recognized for the closure of 19 smaller branches lacking prospects of achieving adequate profitability in future years. 16 sites had already been closed and the workforce reduced by 815 full-time equivalents in 2020.

Asset impairments

In connection with the initiated site closures, impairment losses were recognized in 2020 on property, plant and equipment and right-of-use assets in the USA (€7 million), Germany (€3 million) and France (€3 million). The impairment losses were recognized in the affected segments.

(7) Sales

Accounting policies

Revenues from sales of goods are recognized when control has transferred to the buyer. This mostly coincides with the delivery date. Revenues from contracts with customers are only recognized otherwise than at the time of delivery if the buyer already has control before delivery or if control transfers over time. Sales are reported net of allowances such as commissions, trade discounts and rebates. There were no significant discretionary decisions at the reporting date.

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

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

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

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

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

Payment terms vary from customer to customer. Frequent payment terms are 30 days net, 60 days net and the 15th of the month following delivery.

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

2021 *(€ thousand)*	Kloeckner Metals US	Kloeckner Metals EU	Kloeckner Metals Non-EU	Holding and other Group Companies	Total
Germany	166	1,583,203	9,169	350	1,592,888
EU excluding Germany	6,548	928,949	10,417	-	945,916
Switzerland	2,646	6,086	1,016,144	-	1,024,875
Rest of Europe	9	10,444	309,126	-	319,579
USA	3,399,482	742	215	-	3,400,438
Rest of North America	2,822	85	-	-	2,907
Central and South America	99,672	23,877	206	-	123,755
Asia/Australia	130	14,767	93	-	14,990
Africa	-	15,507	9	-	15,516
Sales	**3,511,475**	**2,583,660**	**1,345,379**	**350**	**7,440,863**

2020 *(€ thousand)*	Kloeckner Metals US	Kloeckner Metals EU	Kloeckner Metals Non-EU	Holding and other Group Companies	Total
Germany	46	1,131,233	5,763	122	1,137,164
EU excluding Germany*)	4,391	755,657	8,489	-	768,536
Switzerland	-	5,392	891,823	-	897,216
Rest of Europe*)	314	10,650	194,923	-	205,888
USA	2,011,859	739	971	-	2,013,569
Rest of North America	2,500	336	-	-	2,836
Central and South America	57,011	14,354	181	-	71,546
Asia/Australia	15	13,413	111	-	13,538
Africa	-	19,804	9	-	19,813
Sales	**2,076,136**	**1,951,578**	**1,102,270**	**122**	**5,130,106**

*) BREXIT adjustment: for better comparability, sales generated in the United Kingdom have already been fully allocated to the "Rest of Europe" region in 2020

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

2021 *(€ thousand)*	Kloeckner Metals US	Kloeckner Metals EU	Kloeckner Metals Non-EU	Holding and other Group Companies	Total
Stockholding	1,328,941	1,341,071	555,139	350	3,225,500
Processing and Service-Center	2,149,141	934,014	425,978	-	3,509,134
Direct business	33,393	204,301	27,203	-	264,897
Other contracts	-	104,274	337,058	-	441,333
External sales	**3,511,475**	**2,583,660**	**1,345,379**	**350**	**7,440,863**

2020 *(€ thousand)*	Kloeckner Metals US	Kloeckner Metals EU	Kloeckner Metals Non-EU	Holding and other Group Companies	Total
Stockholding	889,318	944,351	371,004	122	2,204,795
Processing and Service-Center	1,157,428	765,875	426,248	-	2,349,551
Direct business	29,390	149,159	23,423	-	201,973
Other contracts	-	92,193	281,595	-	373,788
External sales	**2,076,136**	**1,951,578**	**1,102,270**	**122**	**5,130,106**

The other contracts in the Kloeckner Metals Non-EU segment mainly relate to sales of technical products in Switzerland.

(8) Other operating income

(€ thousand)	2021	2020
Material special effects - gain on disposal of intagible assets and PPE	14,187	-
Material special effects - gain on disposal of assets held for sale	12,627	-
Reversal of provisions	4,771	4,354
Indemnification payments received	3,791	219
Income from reversal of bad debt allowances	3,375	2,500
Foreign currency exchange gains	2,676	4,190
Gain on sale of other non-current assets and assets held for sale	1,223	1,333
Income from written-off receivables	385	449
Gain on sale of land and buildings	158	1,782
Other income	8,903	8,996
Other operating income	**52,096**	**23,823**

Material special effects relate to the disposal of property, plant and equipment as a result of the Surtsey project. Further information is included in Note 6 (Special items affecting the results).

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

(9) Cost of materials

(€ thousand)	2021	2020
Cost of materials, supplies and purchased merchandise	5,586,413	4,079,464
Cost of purchased services	3,597	4,340
Cost of materials	**5,590,010**	**4,083,804**

(10) Personnel expenses

(€ thousand)	2021	2020
Wages and salaries	482,404	441,606
Restructuring expenses	– 2,941	46,718
Social security contributions (including welfare benefits)	88,131	88,327
Retirement benefit cost	30,264	23,075
Personnel expenses	**597,858**	**599,726**

The increase in wages and salaries with a smaller total number of employees relates to higher bonus payments and to severance payments outside of the restructuring program. The restructuring expenses are reversals of provisions recognized in the prior year where there were changes in restructuring plans.

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

	2021	2020
Salaried employees	4,388	4,381
Wage earners	2,537	3,173
Apprentices	195	220
Employees	**7,120**	**7,774**

(11) Other operating expenses

(€ thousand)	2021	2020
Forwarding cost	150,000	129,373
Third-party services	103,014	92,071
Repairs, maintenance and other expenses for plant and buildings	65,934	56,680
Supplies	45,032	41,811
Audit fees and consulting	19,058	12,601
Other taxes	17,787	18,465
Other insurance	8,665	8,692
Travel expenses	7,249	7,800
Postal charges and telecommunication	6,796	7,561
Foreign currency exchange losses	4,458	4,047
Advertising and representation expenses	3,459	4,471
Addition to bad debt allowance	3,445	2,580
Credit insurance	2,339	1,934
Bad debt expenses	1,622	2,304
Other restructuring expenses	498	7,307
Other expenses	31,005	23,295
Other operating expenses	**470,361**	**420,992**

The other restructuring expenses in the prior year included closure costs for sites in the USA, Germany, France and the Netherlands as part of the Surtsey project. Only follow-on expenses were incurred for this project in the reporting year.

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

(12) Income from investments

Income from investments comprises dividends and measurement gains/losses on unconsolidated affiliated companies and other investments and breaks down as follows:

(€ thousand)	2021	2020
Dividends	998	300
Income from the valuation of equity instruments	10,515	-
Income from investments	**11,513**	**300**
Impairment losses on equity instruments valued at amortized cost	– 1,000	-
Reversal of impairment losses	4	-
Impairment losses on investments	**– 996**	**-**
Income from investments	**10,517**	**300**

Income from the measurement of equity instruments relates to investment by kloeckner.v GmbH in various venture capital companies.

(13) Financial result

Accounting policies

Interest income is recognized pro rata temporis based on the outstanding principal amount and the applicable interest rate using the effective interest method. Dividends are recognized when the right to receive payment is legally established.

(€ thousand)	2021	2020
Other interest and similar income	8,323	803
Finance income	**8,323**	**803**
Interest and similar expenses	– 20,656	– 23,819
Interest cost for leases	– 3,048	– 4,625
Interest cost for post–employment benefits	– 1,740	– 2,842
Finance expenses	– 25,444	– 31,286
Financial result	**– 17,120**	**– 30,483**

The financial result includes net interest expense of €12,336 thousand (2020: €23,115 thousand) measured and recognized using the effective interest rate method.

The increase in other interest and similar income includes €7,799 thousand from remeasurement of the convertible bond.

(14) Income taxes

Accounting policies

Income tax expense is the sum total of current and deferred tax expenses.

Current tax expense is calculated on the basis of taxable income for the fiscal year. Tax liabilities are measured at the amount for which payment to the taxation authorities is expected. The liabilities are measured at the tax rates that have been enacted by the reporting date.

Deferred taxes are calculated using the balance sheet liability method. They result from differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and their tax base (temporary differences) and from consolidation entries. No deferred taxes are recognized for goodwill on initial consolidation. Deferred taxes are measured based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

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

The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Klöckner & Co Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and deferred tax liabilities are offset if there is a legally enforceable right to set off and they relate to income taxes levied by the same taxation authority and current tax assets and tax liabilities are intended to be settled on a net basis.

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

Income taxes in the income statement

Income tax income/expense for the Klöckner & Co Group is as follows:

(€ thousand)	2021	2020
Current income tax expense (+)/benefit (–)	**137,356**	**– 5,042**
thereof related to prior periods	*– 1*	*– 13,521*
thereof related to current period	*137,357*	*8,479*
Domestic	24,168	– 206
Foreign	113,188	– 4,836
Deferred tax expense (+)/benefit (–)	**– 18,797**	**– 4,420**
thereof related to temporary differences	*– 4,004*	*– 2,964*
thereof related to loss carry forwards	*– 14,794*	*– 1,456*
Domestic	– 25,445	– 265
Foreign	6,648	– 4,155
Income tax expense (+)/benefit (–)	**118,559**	**– 9,462**

The combined income tax rate is 31,8% (2020: 31.8%), comprising corporate income tax (including solidarity surcharge) of 15,8% and trade tax for Klöckner & Co of 16,0%. Foreign tax rates vary between 10,0% and 34,0%.

The income tax item shows current tax expense of €137,356 thousand in the reporting year (2020: current tax income of €– 5,042 thousand). It should be noted, however, that cross-border offsetting of tax profits and tax losses is not permitted. In particular, tax losses in individual European countries cannot be offset against tax profits in other European countries.

The Group operates in numerous different countries. Its income is therefore subject to various tax jurisdictions. Tax receivables, tax liabilities, temporary differences, tax loss carryforwards and the resulting deferred taxes must be determined separately for each taxable entity. Management is required to make estimates in calculating current and deferred taxes. Deferred tax assets can only be recognized to the extent that their realization is probable. The realization of deferred taxes notably depends on sufficient taxable income being available for the type of tax and tax jurisdiction concerned. Various factors must be taken into consideration when gauging the probability of the future flow of economic benefits, such as historical earnings, budgets, loss carryforward restrictions and tax planning strategies. The recognition of deferred taxes is assessed once again at each reporting date.

IFRIC 23 clarifies the application of the recognition and measurement rules in IAS 12 in the event of uncertainty about the income tax treatment. Recognition and measurement require estimates and assumptions about such questions as to whether uncertain tax treatments are considered separately or together, whether the most likely value or the expected value method is used to resolve the uncertainty and whether there have been changes relative to the prior period. Detection risk is immaterial to the accounting of uncertain financial statement items. They are accounted for on the basis of the assumption that the tax authorities investigate the matter in question and have full knowledge of all relevant information.

Information on the stated estimates, assumptions and judgments must be provided in the notes. In addition, information on the potential effects of the uncertainty must be disclosed as a tax-related contingent liability in accordance with IAS 12.88.

There are no material effects on the consolidated financial statements of Klöckner & Co SE.

Expected tax income/expense is reconciled to actual tax income/expense as follows:

(€ thousand)	**2021**	2020
Expected tax rate	**31.8%**	**31.8%**
Income before taxes	**747,896**	**– 123,825**
Expected tax expense/benefit at domestic tax rate	237,830	– 39,376
Foreign tax rate differential	– 41,420	1,369
Tax rate changes	– 519	– 1,572
Tax reduction due to tax free income	– 3,351	– 245
Tax increase due to non–deductible expenses	4,083	3,581
Current income tax levied or refunded for prior periods	– 3,198	– 1,674
Tax reduction due to aperiodic recognition of deferred tax assets on temporary differences and on tax loss carryforwards	– 34,714	-
Tax benefit resulting from previously unrecognized deferred tax assets on loss carryforwards and on temporary differences	– 45,016	– 5,136
Tax increase due to non–capitalization of deferred tax assets on loss carryforwards and deductible temporary differences including valuation allowances	3,346	33,278
Other income taxes	2,591	653
Other tax effects	– 1,072	– 340
Effective income tax benefit/expense	**118,560**	**– 9,462**
Effective tax rate	**15.9%**	**7.6%**

The actual tax rate of 15.9% in the fiscal year under review is below the expected combined income tax rate of 31.8%. This mainly relates to lower tax due to recognition of deferred tax assets on tax loss carryforwards and temporary differences in Germany and the utilization of tax losses for which no deferred tax asset had been recognized.

Deferred tax assets were recognized on loss carryforwards and temporary differences in Germany as the restructuring measures implemented in the prior year are expected to improve the future earnings situation of the companies in the German tax group.

The effect in other income taxes relates to the French territorial economic contributions (CFE and CVAE).

Taxes recognized directly in other comprehensive income
Current and deferred taxes are normally recognized in profit or loss, with the exception of taxes relating to items accounted for in other comprehensive income.

(€ thousand)	**December 31, 2021**	December 31, 2020
Change in deferred tax assets and liabilities (net), not affecting net income	**– 11,362**	**– 3,788**
thereof reported		
– in other comprehensive income	*– 11,362*	*– 3,788*

Deferred taxes on adjustments of pension provisions in other comprehensive income in accordance with IAS 19, net investment hedges and changes in the fair values of derivative financial instruments designated in hedge accounting are recognized directly in other comprehensive income.

Deferred tax liabilities relating to items accounted for in equity totaled €–969 thousand at the end of the reporting year (2020: deferred tax assets of €7,958 thousand). In the reporting year, these relate in their entirety to pension obligations.

Deferred tax assets and liabilities

Deferred tax assets and liabilities associated with items in the consolidated statement of financial position and to tax loss carryforwards are as follows:

(€ thousand)	As of January 1, 2021 Net balance	Recognized in profit and loss	Recognized in OCI
From temporary differences and consolidations	***– 45,298***	***4,004***	***– 3,143***
Intangible assets	– 7,411	1,270	– 514
Property, plant and equipment	– 37,251	– 2,587	– 2,585
Non-current investments	1,885	– 1,968	131
Inventories	– 9,459	– 3,332	– 656
Receivables	– 1,055	734	– 73
Other current assets	– 1,111	31,108	– 77
Provisions for pensions and similar obligations	14,813	– 21,622	1,028
Other provisions and accrued liabilities	– 512	3,274	– 36
Financial liabilities	460	-	32
Other liabilities	– 5,658	– 2,873	– 393
Tax loss carryforwards/interest carryforwards	*10,302*	*14,794*	*714*
Deferred tax assets/liabilities (before offsetting)	**– 34,997**	**18,798**	**– 2,429**
Offsetting	-		
Deferred tax assets/liabilities	**– 34,997**		

(€ thousand)	As of January 1, 2020 Net balance	Recognized in profit and loss	Recognized in OCI
From temporary differences and consolidations	***– 44,448***	***2,964***	***– 3,814***
Intangible assets	– 6,639	– 799	– 20
Property, plant and equipment	– 39,915	6,753	– 119
Non-current investments	– 2,573	4,485	– 8
Inventories	– 10,251	458	– 30
Receivables	– 2,311	4,412	– 7
Other current assets	– 3,780	3,782	– 11
Provisions for pensions and similar obligations	19,939	– 6,187	– 3,622
Other provisions and accrued liabilities	843	1,802	3
Financial liabilities	467	– 8,833	1
Other liabilities	– 229	– 2,909	– 1
Tax loss carryforwards/interest carryforwards	*8,820*	*1,456*	*26*
Deferred tax assets/liabilities (before offsetting)	**– 35,628**	**4,420**	**– 3,788**
Offsetting	-		
Deferred tax assets/liabilities	**– 35,628**		

Recognized directly in equity	Acquired in business combinations	Other (e.g. non-current assets held for sale and discontinued operations)	As of December 31, 2021 Net balance	Deferred tax assets	Deferred tax liabilities
– 8,933	***-***	***-***	***– 53,373***	***50,671***	***– 104,044***
-	-	-	– 6,655	319	– 6,974
-	-	-	– 42,423	3,440	– 45,863
-	-	-	48	48	-
-	-	-	– 13,447	1,269	– 14,716
-	-	-	– 394	355	– 749
-	-	-	29,920	31,090	– 1,170
– 8,933	-	-	– 14,713	6,537	– 21,250
-	-	-	2,726	4,098	– 1,372
-	-	-	491	592	– 101
-	-	-	– 8,926	2,923	– 11,849
-	-	-	*25,811*	*25,811*	-
– 8,933	**-**	**-**	**– 27,562**	**76,482**	**– 104,044**
			-	– 40,904	40,904
			– 27,562	**35,578**	**– 63,140**

Recognized directly in equity	Aquired in business combinations	Other (e.g. non-current assets held for sale and discontinued operations)	As of December 31, 2020 Net balance	Deferred tax assets	Deferred tax liabilities
-	***-***	***-***	***– 45,299***	***38,599***	***– 83,898***
-	-	-	– 7,411	227	– 7,638
-	-	-	– 37,251	89	– 37,340
-	-	-	1,885	1,885	-
-	-	-	– 9,459	1,221	– 10,680
-	-	-	– 1,055	999	– 2,054
-	-	-	– 1,111	7,374	– 8,485
-	-	-	14,813	21,872	– 7,058
-	-	-	– 512	3,552	– 4,064
-	-	-	460	460	-
-	-	-	– 5,658	920	– 6,579
-	-	-	*10,302*	*10,302*	-
-	**-**	**-**	**– 34,997**	**48,901**	**– 83,898**
			-	– 40,577	40,577
			– 34,997	**8,324**	**– 43,321**

In accordance with IAS 12.39, no deferred tax liabilities were recognized for taxable temporary differences associated with investments in subsidiaries (outside basis differences) in the amount of €20.7 million (2020: €7.9 million). The amount of the related deferred tax liabilities is €6.5 million (2020: €2.5 million).

The following deferred tax assets on unused tax loss carryforwards and deductible temporary differences have not yet been recognized because their realization cannot be reliably guaranteed:

(€ million)	**December 31, 2021**	December 31, 2020
Unrecognized tax losses		
– Corporate income tax	548	773
– Trade tax and similar taxes	118	304
– Interest carry forward	-	-
Temporary differences	54	54

The majority of the unrecognized tax loss carryforwards are not subject to a maximum carryforward period under prevailing law and therefore do not expire unless specific circumstances arise (such as change of control). The unrecognized tax loss carryforwards that are subject to a maximum carryforward period expire as follows:

(€ million)	**December 31, 2021**	December 31, 2020
until December 31, 2021	-	-
until December 31, 2031	57	59
after December 31, 2031	71	132

Temporary differences are deductible indefinitely.

(15) Earnings per share

Accounting policies

Basic earnings per share are calculated by dividing consolidated net income for the year attributable to shareholders of Klöckner & Co SE by the average number of shares outstanding during the period.

Potential shares from convertible bonds are treated as dilutive if, and only if, their conversion to shares would decrease earnings per share or increase loss per share.

		2021	2020
Net income attributable to shareholders of Klöckner & Co SE	(€ thousand)	618,971	– 115,927
Weighted average number of shares	(thousands of shares)	99,750	99,750
Basic earnings per share	**(€/share)**	**6.21**	**– 1.16**
Net income attributable to shareholders of Klöckner & Co SE	(€ thousand)	618,971	
Interest income from the revaluation of convertible bond (net of tax)	(€ thousand)	– 5,319	
Interest expense on convertible bond (net of tax)	(€ thousand)	4,903	
Net income used to determine diluted earnings per share	(€ thousand)	618,555	
Weighted average number of shares	(thousands of shares)	99,750	
Dilutive potentiel shares from convertible bond	(thousands of shares)	11,087	
Weighted average number of shares for dilutive earnings per share	(thousands of shares)	110,837	
Diluted earnings per share	**(€/share)**	**5.58**	**– 1.16**

Notes to the consolidated statement of financial position

(16) Intangible assets and property, plant and equipment

a) Intangible assets

Accounting policies
Intangible assets with finite useful lives are carried at cost less accumulated amortization and any accumulated impairment losses if economic benefits are expected from the asset and the cost of the asset can be measured reliably.

Intangible assets are amortized on a straight-line basis over their expected useful life. Intangible assets recognized in business combinations for customer relationships are amortized based on the expected churn rate.

The expected useful lives are as follows:

	Useful life in years
Software	2–5
Customer relations	4–15
Trade names	3–15
Other intangible assets	1–15

The useful life is reviewed annually and changed as necessary in accordance with future expectations. Intangible assets with an indefinite useful life – in the Klöckner & Co Group solely goodwill – are reviewed for impairment annually and whenever there is an indication that they may be impaired.

(€ thousand)	Intangible assets (without Software/ Goodwill)	Software	Goodwill	Total intangible assets
Cost as of January 1, 2020	432,647	108,752	320,486	861,885
Accumulated amortization and impairments	– 345,744	– 95,827	– 289,807	– 731,378
Balance as of January 1, 2020	**86,903**	**12,925**	**30,679**	**130,507**
Exchange rate differences	– 4,605	– 7	121	– 4,491
Additions	6,205	3,100	-	9,305
Disposals	-	– 2	-	– 2
Impairments	-	– 1	-	– 1
Depreciation and amortization	– 17,605	– 8,697	-	– 26,302
Transfers	– 3,416	3,485	-	69
Balance as of December 31, 2020	**67,482**	**10,803**	**30,800**	**109,085**
Cost as of December 31, 2020	402,035	111,320	290,853	804,208
Accumulated amortization and impairments	– 334,553	– 100,517	– 260,053	– 695,123
Balance as of January 1, 2021	**67,482**	**10,803**	**30,800**	**109,085**
Exchange rate differences	4,060	185	1,154	5,399
Additions	2,782	4,322	-	7,104
Disposals	-	– 4	-	– 4
Impairments	-	– 169	-	– 169
Depreciation and amortization	– 16,841	– 7,185	-	– 24,026
Transfers	– 1,519	1,519	-	-
Balance as of December 31, 2021	**55,964**	**9,471**	**31,954**	**97,389**
Cost as of December 31, 2021	429,558	86,363	320,582	836,503
Accumulated amortization and impairments	– 373,594	– 76,892	– 288,628	– 739,114

Intangible assets include €5 million (2020: €9 million) for self-developed software at kloeckner.i GmbH and XOM Materials GmbH. Research and development expenses came to €1 million (2020: €6 million).

Goodwill impairment testing in accordance with IAS 36

The annual impairment testing of cash-generating units (CGUs) to which goodwill has been allocated, as required by IAS 36 (Impairment of Assets), is carried out on the basis of the business plan approved by the respective committees in the fourth quarter.

The recoverable amount of a CGU is calculated as value in use using a discounted cash flow method, which is based on bottom-up planning. Planning generally covers a three-year period. The expected future cash flow also generally takes the cyclical nature of the business model into account by averaging over the detailed planning period. Klöckner & Co utilizes a uniform planning model for all CGUs.

The projected cash inflows largely depend on expected shipments and future gross profit per ton. This is prognosticated on the basis of normalized gross profit. Shipments are estimated taking into account macroeconomic and industry-specific trends.

Other major factors affecting the sustainable level of future cash inflows comprise the expected development of operating expenses (OPEX) and the determination of discount rates, including the future growth rate assumed in perpetuity. OPEX is determined on the basis of individual business budgeting and on assessment of macroeconomic developments (such as adjustments for inflation).

In impairment testing, we took account of the market changes caused by COVID-19 on the basis of available data and management estimates as well as the measures already initiated as part of the Surtsey project in calculating the value in use.

The discount rates are based on the Capital Asset Pricing Model (CAPM). Its main inputs are the risk-free rate of return, the beta factor of the Klöckner & Co share, assumptions about credit risk and the market risk premium for return on equity.

Growth rates of 0.5% (Switzerland CGU) and 0.80% (BSS CGU) were used in determining the expected future cash flows (2020: Switzerland CGU 0.45%; BBS 0.9%).

Assumptions used in impairment testing of material goodwill
The following assumptions were used for the compound annual growth rate (CAGR) of shipments, gross profit per ton and OPEX in the detailed planning period for the purposes of impairment testing of goodwill determined to be material:

CGU (in %)		Shipments	Gross profit per ton	OPEX
Switzerland	2021	2.4	– 6.7	– 1.4
	2020	(1.4)	(– 1.2)	(– 2.2)
Becker Stahl-Service GmbH (BSS)	2021	10.1	– 7.0	9.0
	2020	(9.5)	(4.6)	(1.4)

Impairment testing of goodwill allocated to the CGUs
The carrying amounts of goodwill totaled €32 million and relate to the Switzerland CGU (€27 million) and Becker Stahl-Service GmbH (€5 million). The impairment test confirmed that the goodwill is not impaired. It demonstrated positive headroom of €15,934 thousand (2020: €18,102 thousand) for Switzerland and €138,064 thousand (2020: €30,937 thousand) for Becker Stahl-Service. The disclosures of the prior-year headroom and the prior-year assumptions on the growth rate of shipments, gross profit per ton and OPEX supplement the consolidated financial statements as of December 31, 2020 within the meaning of IAS 8.41 et seq.

The following table shows, for the key assumptions used in determining the terminal value in the impairment test, the percentage change at which the CGU's recoverable amount equals its carrying amount:

CGU	Shipments	Gross profit per ton	OPEX	WACC
Switzerland	– 2%	– 0.4%	0.6%	+ 0.2%p
Becker Stahl-Service GmbH (BSS)	– 32.5%	– 11.1%	17.1%	+ 3.2%p

Value in use was measured for the Switzerland CGU on the basis of a pretax WACC of 6.3% (2020: 5.2%) and for the Becker Stahl-Service CGU on the basis of a pretax WACC of 9.95% (2020: 6.4%).

Impairment testing of other intangible assets
Management is required to assess other intangible assets at each reporting date for triggering events indicating that the assets may be impaired. If triggering events are identified, the recoverable amount of the asset or CGU must be estimated.

Of the carrying amount of other intangible assets (excluding software/goodwill) of €56 million, €36 million relates to intangible assets (mainly customer relationships) from business combinations in the USA amortized on a straight-line basis over their expected useful life.

Klöckner & Co SE's market capitalization was less than the book value of equity as of December 31, 2021. There was thus a triggering event within the meaning of IAS 36.12 (d) that may be an indication of impairment. The impairment test carried out in consequence confirmed that intangible assets were not impaired.

b) Property, plant and equipment

Accounting policies
Property, plant and equipment is carried at cost less accumulated depreciation and impairments. The cost of self-constructed assets comprises all direct costs and attributable overheads. Administrative costs are only included in the cost of an asset to the extent that they relate to its construction. Property, plant and equipment subject to depreciation is normally depreciated on a straight-line basis. Maintenance and repair costs are expensed as incurred.

Depreciation is based on the following useful lives:

	Useful life in years
Office building, factory and warehouse buildings	10–50
Plant facilities similar to buildings	8–33
Warehouse and crane equipment and other technical equipment	2–20
Operating and office equipment	1–15

(€ thousand)	Land, similar land rights and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Payments on account and construction in progress	Total property, plant and equipment
Cost as of January 1, 2020	911,619	433,862	401,625	18,493	1,765,599
Accumulated amortization and impairments	– 417,065	–277,502	–269,171	-	–963,738
Balance as of January 1, 2020	**494,554**	**156,360**	**132,454**	**18,493**	**801,861**
Exchange rate differences	–10,474	–6,371	–3,117	–783	–20,745
Additions	22,789	13,189	26,805	35,147	97,930
Disposals	– 4,383	– 1,252	– 711	-	– 6,346
Impairments	– 6,564	– 3,174	– 4,285	-	– 14,023
Depreciation and amortization	– 38,523	– 27,760	– 39,171	-	– 105,454
Transfers	3,454	10,202	3,365	– 17,090	– 69
Reclassification to assets held for sale	–8,050	–365	–969	-	–9,384
Balance as of December 31, 2020	**452,803**	**140,829**	**114,371**	**35,767**	**743,770**
Cost as of December 31, 2020	889,439	429,114	390,554	35,767	1,744,874
Accumulated amortization and impairments	– 436,636	– 288,285	– 276,183	-	– 1,001,104
Balance as of January 1, 2021	**452,803**	**140,829**	**114,371**	**35,767**	**743,770**
Exchange rate differences	18,347	6,487	4,896	2,721	32,451
Additions	19,582	12,762	28,454	39,105	99,903
Disposals	– 8,271	– 1,237	– 2,029	– 6	– 11,543
Reversal of impairments	844	264	1,454	-	2,562
Impairments	– 1,847	– 428	– 326	-	– 2,601
Depreciation and amortization	– 38,366	– 27,035	– 34,775	-	– 100,176
Transfers	4,658	10,611	3,097	– 18,366	-
Reclassification to assets held for sale	– 3,856	– 100	– 56	-	– 4,012
Balance as of December 31, 2021	**443,894**	**142,153**	**115,086**	**59,221**	**760,354**
Cost as of December 31, 2021	904,081	447,334	394,713	59,269	1,805,397
Accumulated amortization and impairments	– 460,187	– 305,181	– 279,627	– 48	– 1,045,043

Property, plant and equipment includes right-of-use assets (IFRS 16) in the amount of €143,508 thousand (2020: €170,005 thousand).

Property, plant and equipment with a carrying amount of €41,588 thousand (2020: €53,515 thousand) was pledged as security in the form of liens for financial liabilities.

Impairment testing of other non-current assets
If there are indications of impairment for CGUs to which no goodwill has been allocated, the recoverable amount is measured at the level of each CGU.

Klöckner & Co SE's market capitalization was less than the book value of equity as of December 31, 2021. There was thus a triggering event within the meaning of IAS 36.12 (d) that may be an indication of impairment of other non-current assets.

In the ensuing impairment test, only the carrying amounts of the United Kingdom and Netherlands CGUs were less than their value in use. The carrying amounts of the tested non-current assets of the CGUs in question before impairment testing were as follows as of December 31, 2021:

(€ thousand)	United Kingdom	The Netherlands
Other intangible assets	115	56
Land and buildings	14,380	12,521
Technical equipment and machinery	7,708	1,716
Other equipment, operating and office equipment	3,702	2,384
Payments on account	28,132	60
Right-of-use assets	15,302	866
Total	**69,224**	**17,547**

United Kingdom and Netherlands CGUs

Impairment testing showed that the values in use of these CGUs were less than their carrying amounts, hence the recoverable amount cannot be determined from the cash flows from continuing use. A determination of the recoverable amount using fair value less costs of disposal of these CGUs was not performed due to a lack of market information.

Any impairment must then be allocated to reduce the carrying amounts of the assets of the CGUs (IAS 36.104). In allocating the impairment loss, the carrying amount of an asset may not be reduced below its fair value less costs of disposal or its value in use (IAS 36.105). The fair values of the individual assets were therefore determined.

In determining the fair values of land assets, we relied on outside appraisals and external sources for land values. Any appraisals from prior periods were updated in line with observed market changes. The appraisals are based on the sales comparison approach where pertinent data is available and otherwise on the replacement value approach.

For plant and equipment as well as for operating and office equipment, fair values were determined with the assistance of outside experts. The fair values were determined on the basis of an indexed replacement value approach. The price indices were obtained from the Office for National Statistics and the Genesis-Online database provided by the German Federal Statistical Office (DESTATIS). Obsolescence risk was accounted for by reductions of 5% to 10% for functional and of 5% to 30% for economic obsolescence. The assumed economic useful lives are based on a 2010 study by the ASA Machinery & Technical Specialties Committee.

We determined the fair values of right-of-use assets in accordance with IFRS 16 on the basis of benchmark lease payments and price developments for comparable assets.

The fair values determined in this way mainly exceed the carrying amounts of the assets of the United Kingdom CGU and the Netherlands CGU. No impairments therefore had to be recognized in fiscal year 2021 and it is determined that the non-current assets are not impaired under the assumption of individual disposal or alternative use (e.g. through subleasing).

A right-of-use asset at the holding company is in part no longer used. An impairment has been recognized on the corresponding €1.6 million portion of the asset. In addition, impairment losses of €1.0 million were recognized for property, plant and equipment and right-of-use assets no longer in use in the Germany CGU (€0.7 million) and in the United Kingdom CGU (€0.3 million).

The positive overall business performance resulted in €1.7 million in reversals of prior-year impairments on property, plant and equipment in the Germany and France CGUs.

In addition, on the basis of new information, impairment losses recognized in the prior year on right-of-use assets that ceased to be used due to the Surtsey project were reversed in the amount of €0.7 million.

c) Leases

Accounting policies

THE GROUP AS LESSOR

Klöckner & Co does not act as lessor to any significant extent.

THE GROUP AS LESSEE

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease. For all leases in which the Group is lessee, the Group recognizes a right-of-use asset and a corresponding lease liability. Exceptions to this are short-term leases (defined as leases with a term of 12 months or less) and leases of low-value assets (such as tablets, personal computers, small items of office furniture and telephones). For these leases, the Group recognizes lease payments as other expenses on a straight-line basis over the lease term, unless another systematic basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

The lease liability is initially recognized at the present value of the lease payments that are not paid at that date, discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Group uses its incremental borrowing rate. The incremental borrowing rate is determined on the basis of external sources. These are adjusted to take account of the lease terms and the type of asset.

Lease payments are included in measurement of the lease liability as follows:

- Fixed lease payments (including in-substance fixed payments), less any incentives receivable
- Variable lease payments based on an index or rate, initially measured using the index or rate at the commencement date of the lease
- Amounts expected to be payable by the lessee under residual value guarantees
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease

For subsequent measurement of the lease liability, the carrying amount is increased to reflect interest on the lease liability (applying the effective interest method) and reduced to reflect the lease payments made.

The Group carries out a remeasurement of lease liabilities and adjusts the corresponding right-of-use asset accordingly in the following cases:

- There is a change in the lease term or there is a significant event or significant change in circumstances resulting in a change in the assessment of an option to purchase. In such cases, the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- There is a change in future lease payments resulting from a change in an index or a rate or a change in the amounts expected to be payable under a residual value guarantee. In these cases, the lease liability is remeasured by discounting the revised lease payments using an unaltered discount rate (unless the change in lease payments results from a change in floating interest rates, in which case a revised discount rate is used).
- There is a lease modification and the lease modification is not accounted for as a separate lease. In such cases, the lease liability is remeasured on the basis of the modified lease term by discounting the revised lease payments using a revised discount rate at the effective date of the lease modification.

Initial measurement of the right-of-use assets comprises any lease payments made at or before the commencement date, less any lease incentives received, plus any initial direct costs incurred. Subsequent measurement is at cost less any accumulated depreciation and any accumulated impairment losses.

If the Group has an obligation to dismantle or remove the asset underlying a lease or to restore the asset or site on which it is located to the condition required by the terms and conditions of the lease, a provision is recognized and measured in accordance with IAS 37. If such costs relate to a right-of-use asset, they are recognized as part of the cost of the right-of-use asset.

Right-of-use assets are normally depreciated over the lease term. However, if the useful life of the underlying asset is shorter than the lease term, the right-of-use asset is depreciated over the useful life of the underlying asset. The same applies if the lease transfers ownership of the underlying asset or if the Group is reasonably certain to exercise a purchase option agreed in the lease and the exercise price is therefore already included in the cost of the right-of-use asset. Depreciation begins on commencement of the lease.

Right-of-use assets are presented as a separate item in the consolidated statement of financial position. The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any impairment loss as described in the accounting principles for property, plant and equipment.

Variable lease payments that do not depend on an index or rate are not included in measurement of the lease liability and the right-of-use asset. Such payments are recognized in profit or loss in the period in which the event or condition that triggers the payments occurs.

Among the practical expedients provided for in IFRS 16, a lessee can elect not to separate non-lease components from lease components and instead to account for each lease component and any associated non-lease components as a single agreement in accordance with IFRS 16. The Group applies this practical expedient for leases of technical equipment and machinery and for leases of operating and office equipment. For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component based on the relative stand-alone selling price of the lease component and the aggregate stand-alone selling prices of the non-lease component(s).

In the case of right-of-use assets that do not meet the definition of investment property, the Group presents right-of-use assets in property, plant and equipment and lease liabilities in financial liabilities.

The Group primarily leases stockyard and office premises, trucks, cars and machinery. These leases typically have ten-year terms and an extension option. Lease payments are renegotiated every five years to reflect market rates. Some leases provide for additional lease payments based on changes in local price indices.

IT equipment is leased by the Group with lease terms of between one and three years. These are short-term leases and/or leases of low-value assets. The Group has elected not to recognize right-of-use assets or lease liabilities for these leases.

Information on leases in which the Group is lessee is presented in the following.

Right-of-use assets

Right-of-use assets relating to leased property that does not meet the definition of investment property are presented in property, plant and equipment (see Note 16b).

(€ thousand)	Land and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Total
January 1, 2020	**131,157**	**8,265**	**59,009**	**198,431**
Depreciation	– 22,260	– 2,093	– 21,510	– 45,863
Impairments	– 1,611	– 237	– 1,323	– 3,171
Additions right-of-use	16,625	471	14,082	31,178
Disposals right-of-use	– 3,740	-	– 720	– 4,460
Foreign currency adjustment	– 4,409	– 142	– 1,559	– 6,110
December 31, 2020	**115,762**	**6,264**	**47,979**	**170,005**
January 1, 2021	**115,762**	**6,264**	**47,979**	**170,005**
Depreciation	– 22,428	– 1,755	– 17,702	– 41,885
Impairments	– 1,845	-	-	– 1,845
Additions right-of-use	10,472	561	11,032	22,065
Disposals right-of-use	– 3,802	– 78	– 2,529	– 6,409
Transfers	-	-	– 6,422	– 6,422
Foreign currency adjustment	4,883	123	1,717	6,723
December 31, 2021	**103,042**	**5,115**	**34,075**	**142,232**

Amounts recognized in profit or loss

(€ thousand)	2021	2020
Interest expense for leasing agreements	3,048	4,625
Expenses for short term leases	11,230	9,799
Expenses for leases of an asset of minor value	450	499
Income from subleases	– 10	– 13

Amounts recognized in the statement of cash flows

Cash outflows for leases totaled €60,629 thousand (2020: €60,945 thousand). If all options to extend or terminate not accounted for in the lease liability are exercised, additional payments of €41,774 thousand (2020: €40,443 thousand) will be incurred.

Extension options

A number of leases for property, trucks and cars contain extension options exercisable up to one year before the end of the non-cancelable period of the lease. Where possible, the Klöckner & Co Group seeks to have extension options included in new leases for operational flexibility. Such extension options can only be exercised by Klöckner & Co and not by the lessor. An assessment is made at the commencement date as to whether the extension option is reasonably certain to be exercised. Should a significant event or a significant change in circumstances occur that is within Klöckner & Co's control, the assessment as to whether the extension option is reasonably certain to be exercised is made again.

Klöckner & Co estimates that the potential future lease payments if extension options are exercised for which it is not reasonably certain that they will be exercised would result in an additional lease liability of €35,061 thousand (2020: €32,627 thousand).

There were no significant sale-and-lease-back transactions on the balance sheet date.

(17) Inventories

Accounting policies

Inventories are measured at the lower of cost and net realizable value. Determining net realizable value requires management to estimate sales prices and costs until sale.

Costs of conversion include costs directly related to the units of production, based on normal capacity. As well as directly attributable costs, costs of conversion also include a systematic allocation of indirect materials and indirect labor, including production-related depreciation (e.g. for certain coil inventories). Measurement is normally on a monthly moving average basis. In certain cases, cost is assigned by specific identification of individual costs.

(€ thousand)	December 31, 2021	December 31, 2020
Merchandise	934,607	568,514
Raw materials and supplies	694,623	243,350
Finished goods	62,681	34,103
Work in progress	23,812	9,624
Inventories	**1,715,723**	**855,591**

Raw materials and supplies also include coil inventories at steel service centers.

Of the inventories as of December 31, 2021, €311,128 thousand (2020: €244,179 thousand) are carried at net realizable value. Write-downs to net realizable value were recognized as expense in the amount of €30,676 thousand (2020: €27,685 thousand). The change in (reversal of) write-downs recognized through profit or loss in the fiscal year totaled €1,389 thousand (2020: additions of €3,959 thousand). The amount recognized as expense for inventories corresponds to the cost of materials, supplies and purchased merchandise.

In addition to reservations of title in the ordinary course of business, inventories with a carrying amount of €760,919 thousand (2020: €293,103 thousand) are pledged as security for financial liabilities. As of December 31, 2021, drawings on the corresponding credit lines amounted to €239,714 thousand (2020: €52,970 thousand) under the new ABL program in the USA.

(18) Trade receivables and contract assets

a) Trade receivables

Trade receivables are normally invoiced in the local currency of the relevant subsidiary; foreign currency export receivables are generally hedged.

The Klöckner & Co Group sells trade receivables as a rule under an ABS program. The trade receivables are sold by participating Klöckner & Co companies to a special-purpose entity (SPE).

The refinancing of the purchased receivables by the SPE is therefore reported in the consolidated financial statements as loans from the bank conduits financing them.

The carrying amount of the receivables of the companies participating in the European ABS program as of December 31, 2021 is €243 million (2020: €192 million).

For further information on the ABS program, see Note 26 (Financial liabilities) and Note 3 (Basis of consolidation and consolidation methods).

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

TRADE RECEIVABLES AND CONTRACT ASSETS

(€ thousand)		Of which overdue by days as of the reporting date*)						
Gross trade receivables	Of which not overdue as of the reporting date	1–30 days	31–60 days	61–90 days	91–120 days	> 120 days	Write-downs	Carrying amount
December 31, 2021								
893,099	734,729	117,600	20,703	5,451	3,061	11,555	– 7,954	885,145
December 31, 2020								
557,013	455,666	73,586	12,720	4,557	1,754	8,730	– 13,687	543,326

*) Including contract assets: €41,861 thousand (2020: €25,954 thousand).

As of December 31, 2021, trade receivables of companies not participating in the ABS program were pledged in the amount of €3,379 thousand (2020: €200,736 thousand) as collateral for loan liabilities.

b) Contract assets

Contract assets changed as follows in fiscal year 2021:

(€ thousand)	2021	2020
Contract assets as of January 1	25,954	31,607
Additions/ Disposals	14,339	– 4,205
Exchange rate differences	1,568	– 1,448
Contract assets as of December 31	**41,861**	**25,954**

The increase in contract assets is due to the growth in business volume.

c) Bonus claims to suppliers

Supplier bonus receivables are determined on the basis of contractual agreements and accepted shipments.

(19) Other financial and non-financial assets

	December 31, 2021		December 31, 2020	
(€ thousand)	Current	Non-current	Current	Non-current
Other financial assets	**20,875**	**27,622**	**14,876**	**19,448**
Investments	-	22,129	-	14,177
Non-current loans and securities	-	258	-	260
Receivables from insurance companies	19	-	89	4
Fair value of derivative financial instruments	111	-	3,235	-
Vendors with debit balance	6,447	-	5,248	-
Miscellaneous other non-financial assets	14,298	5,235	6,304	5,007
Other non-financial assets	**38,182**	**172,917**	**23,542**	**49,348**
Receivables from social security carriers	34	-	317	-
Reinsurance claims from pension obligations	-	3,708	-	3,805
Prepaid pension cost	-	169,209	-	45,537
Claims of other taxes	17,416	-	9,612	-
Prepaid expenses	11,337	-	11,475	6
Advance payments	9,395	-	2,138	-
Other assets	**59,057**	**200,539**	**38,418**	**68,796**

(20) Cash and cash equivalents

Cash and cash equivalents mainly comprise bank balances and short-term deposits. There were no restrictions as of the reporting date.

(21) Non-current assets held for sale

Accounting policies

Non-current assets or groups of assets that are disposed of in a single transaction (disposal groups), including the associated liabilities, are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Depreciation and amortization are no longer recognized on non-current assets held for sale. They are carried at the lower of carrying amount and fair value less costs of disposal.

Of the non-current assets held for sale, €1 million relates to properties, technical equipment and machinery and other non-current assets in the Kloeckner Metals EU segment and €3 million to a property in the Kloeckner Metals Non-EU segment, all of which were sold in 2022 in the course of the site closures as part of the Surtsey project. One site has already been sold in the Kloeckner Metals Non-EU segment at the beginning of 2022 with a book gain of €50 million. Please refer to Note 36 (Subsequent events).

(€ thousand)	December 31, 2021	December 31, 2020
Land and buildings	4,038	7,702
Technical equipment and machinery	104	340
Other non-current assets	12	969
Total assets	**4,154**	**9,011**

(22) Equity and non-controlling interests

a) Subscribed capital

The subscribed capital of Klöckner & Co SE is €249,375,000, as in the prior year, and is divided into 99,750,000 no-par-value shares, each notionally corresponding to 2,50 of the share capital.

Acquisition of treasury stock

By Annual General Meeting resolution of May 12, 2017, the Management Board is authorized to acquire, by or before May 11, 2022, treasury stock of up to 10% of the Company's share capital in issue at the time of adoption of the resolution by the Annual General Meeting on May 12, 2017 or, if lower, the Company's share capital in issue at the time of exercise of the authorization. The Management Board was additionally authorized to acquire treasury stock using derivatives (put options, call options or forward contracts). The authorization may be utilized in whole or in part, on one or more occasions, by the Company, by Group companies or by third parties acting on the Company's account or on the account of Group companies. The authorization may be used for any legally permissible purpose. Trading with treasury stock is prohibited. No use has been made of the authorization so far.

Conditional capital

CONDITIONAL CAPITAL 2013

At the Annual General Meeting of May 12, 2017, the Conditional Capital 2013 was adjusted such that the Company's share capital is subject to a smaller conditional increase of up to €24,932,500 by the issue of up to 9,973,000 new no-par-value registered shares. The new no-par-value registered shares issued under the contingent capital increase will each have dividend rights from the beginning of the fiscal year in which they are issued. Section 4 (6) sentence 1 of the Articles of Association was reworded accordingly.

CONDITIONAL CAPITAL 2017

By resolution of the Annual General Meeting of May 12, 2017, the share capital was conditionally increased by up to €49,875,000 by the issue of up to 19,950,000 new no-par-value registered shares (Conditional Capital 2017). The new no-par-value registered shares issued under the contingent capital increase will each have dividend rights from the beginning of the fiscal year in which they are issued. The Conditional Capital 2017 serves to grant subscription and/or conversion rights and/or obligations to the holders of warrant-linked and/or convertible bonds that are issued by the Company or a Group company in accordance with the authorization under agenda item 7 of the Annual General Meeting of May 12, 2017. Furthermore, it serves the purpose of issuing shares to creditors of convertible bonds issued based on the resolution under agenda item 6 of the Company's Annual General Meeting of May 24, 2013 in case of an adjustment of the conversion ratio. The corresponding provision of the Articles of Association is Section 4 (7).

Authorized capital

AUTHORIZED CAPITAL 2017

By resolution of the Annual General Meeting on May 12, 2017, the Management Board was authorized until May 11, 2022 to increase the share capital on one or more occasions by a total of €124,687,500 against cash or non-cash contributions by the issue of 49,875,000 no-par-value registered shares. The corresponding provision of the Articles of Association is Section 4 (3) (Authorized Capital 2017).

b) Capital reserves

Capital reserves as of December 31, 2021 were 568,729 T€ (31. Dezember 2020: 568,729 T€).

c) Retained earnings

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

d) Other comprehensive income

Accumulated other comprehensive income comprises translation differences from translation of the financial statements of foreign subsidiaries, changes in the fair value of cash flow hedges and changes in actuarial gains and losses on pension obligations under IAS 19, including related deferred taxes.

e) Non-controlling interests

Non-controlling interests represent third-party interests in consolidated subsidiaries.

f) Proposal for the appropriation of net income

The Management Board and Supervisory Board propose the distribution from Klöckner & Co SE's unappropriated profits for fiscal year 2021 of an amount of €99.750 thousand to shareholders as dividend and the transfer of the remaining €88,406 thousand of the unappropriated profits to other revenue reserves. At 99,750,000 eligible no-par-value shares, the dividend proposal corresponds to a dividend of €1.00 per share.

(23) Share-based payments

Accounting policies

The share-based compensation plans in the Klöckner & Co Group are cash-settled virtual stock option (VSO) plans. A provision is recognized pro rata temporis in the amount of the fair value of the payment obligation as of each reporting date; any subsequent change in the fair value is recognized in profit or loss.

The fair value of the virtual stock options is measured for the determination of provisions using Monte Carlo simulation with the following parameters:

in %	December 31, 2021	December 31, 2020
Risk-free rate of return	– 0.7 to – 0.3	– 0.8 to – 0.7
Expected volatility	40.5	50.7

The expected volatility is based on market-traded options on the shares.

The Klöckner & Co Group has operated cash-settled share-based payment programs since 2006. The beneficiaries are the Management Board and selected members of senior management throughout the Group. The Management Board program was discontinued effective December 31, 2015. The Management Board's stock options were exercised in full in the second quarter of 2021.

Management Board program (until 2015)

The members of the Management Board had an annual entitlement to virtual stock options (VSOs). The contracts provided for a cash payment to the beneficiary on exercise of the option. The strike price was based on the average price of Klöckner & Co shares over the last 30 stock market trading days of the year prior to issuance of the respective tranche. The cash payment amounted to the difference between the average share price (XETRA trading, Deutsche Börse AG, Frankfurt am Main) over the last 30 trading days prior to exercising the option and the strike price for the respective tranche. The settlement amount was capped at €25 per option after adjusting for dividend payments in the meantime and any dilutive effects of capital increases. The vesting period was three years from the allotment date for the first third of the tranche, four years for the second third and five years for the last third. The individual tranches were issued annually. The granted virtual stock options were to expire in 2023.

Senior management programs

In the first half of the fiscal year, 670,667 (2020: 574,000) virtual stock options were allocated and issued to selected members of senior management. The conditions are largely identical to the Management Board program at Klöckner & Co SE. However, the vesting period is uniformly four years.

The total number of outstanding virtual stock options has changed as follows:

(Number of virtual stock options)	Management Board programs*)	Other executives	Total
Outstanding at the beginning of the year	**488,468**	**4,048,666**	**4,537,134**
Granted	-	670,667	670,667
Exercised	– 488,468	– 1,531,833	– 2,020,301
Forfeited	-	– 265,000	– 265,000
Outstanding at the end of the reporting period	**-**	**2,922,500**	**2,922,500**
thereof exercisable at the reporting date	-	*1,069,833*	*1,069,833*
weighted average remaining contractual lifetime (months)	-	*48*	*48*
range of strike prices (€/VSO)	-	*6.02–10.53*	*6.02–10.53*
weighted average strike price (€/VSO)	-	*7.77*	*7.77*

*) Including options held by former members of the Management Board.

2,020,301 virtual stock options were exercised in fiscal year 2021 (2020: no virtual stock options exercised).

The provision recognized pro rata temporis for stock options granted amounts as of the reporting date to €9,370 thousand (2020: €8,830 thousand) and was utilized on exercise of the options in the amount of €5,562 thousand (2020: nil). The expense for additions to provisions amounted to €6,102 thousand (2020: €3,870 thousand). The intrinsic value of virtual stock options exercisable as of the reporting date was €1,182 thousand (2020: €628 thousand).

(24) Provisions for pensions and similar obligations

Accounting policies

Pension obligations arising from defined benefit plans are determined using the projected unit credit method. The expected benefits, including dynamic components (e.g., pension and salary increases), are recognized over an employee's entire period of service. Actuarial advice is obtained.

Actuarial gains or losses resulting from differences between the expected and actual changes in plan participants and actuarial assumptions are recognized in other comprehensive income in the period in which they arise. They are presented separately in the statement of comprehensive income. The statement of financial position consequently shows the full scale of the obligation while avoiding earnings fluctuations in the income statement as a result of changes in measurement parameters.

Service cost is reported in personnel expenses. Interest expense from the unwinding of the discount on pension obligations and returns on plan assets are presented in the financial result as net interest expense at the rate used to discount the obligations.

To meet pension obligations, the Klöckner & Co Group holds assets in trust under contractual trust arrangements (CTAs). The assets are measured at fair value. The fair value is based on the market values of the asset management companies at the reporting date. The plan assets are offset against the benefit obligation. Any net plan liability is accounted for in provisions. Any excess of plan assets over plan liabilities is presented in assets as a pension plan surplus.

Past service cost is recognized in profit or loss.

Employer contributions to defined contribution plans under which the Klöckner & Co Group pays set contributions into a separate entity under defined contribution plans and has no legal or constructive obligation to pay further contributions are expensed as incurred.

Most employees in the Klöckner & Co Group have pension benefits, with the type of provision varying from country to country according to the national legal, economic and tax situation. Pension plans in the Group include both defined contribution and defined benefit plans as follows:

In fiscal year 2021, plan assets in Germany and the United Kingdom were significantly increased in order to fund and secure future pension payments. Pension obligations in Germany were fully funded by establishing and paying €190 million into a contractual trust arrangement (CTA). In the United Kingdom, the funding level was increased by paying into a Scottish Legal Partnership (SLP), which is a fund separate from the company. The additional amount paid into the SLP in 2021 was GBP40 million. A further amount of GPB 5 million was paid directly into the assets under management by the trustees.

Depending on their year of entry, employees in Germany either have a defined benefit entitlement equaling a percentage of eligible salary for each qualifying year of service or, for entrants after 1979, a fixed capital amount scaled by salary band for each qualifying year of service. There are also individual entitlements for executive staff in accordance with various Essener Verband benefit plans. Older entitlements among these are employer-funded entitlements to pension benefits, while the more recent pension plans are defined contribution plans in which employees are able to add employee-funded contributions. The more recent entitlements feature a choice between a lump sum payment and an annuity.

Defined benefit plans in France include a collectively negotiated IFC plan that provides for a lump sum payment according to length of service and salary. There is also a final salary plan, closed to new entrants since 1989, for employees taken over from a former state corporation (IRUS plan).

In the United Kingdom, post-2003 new entrants have a defined contribution plan with equal employer and employee contributions at a fixed percentage of basic salary. For entrants up to 2003, the employer maintains two defined benefit plans: the ASD PLC Pension Scheme and the ASD PLC Retirement Benefit Scheme. Under these plans, employees receive pension benefits on reaching retirement age (or in the event of early retirement or death) in an amount based on their last salary before occurrence of the benefit event. Both plans are closed to service accruals after 2015 (moved to defined contribution plan).

Klöckner & Co operates the plans in the United Kingdom under the regulatory framework of UK law pertaining to pension plans. Benefits are paid to plan participants out of assets managed by trustees. The trustees are responsible for ensuring that the plans are adequately funded to meet current and future benefit obligations.

The pension plans are registered, asset-funded legal entities. Plan assets are administered separately from the employer's assets. If real investment performance is below expectations, the employer's liabilities increase.

The plans' funding targets are set out in the Statement of Funding Principles and are regularly reviewed to assess both the adequacy of plan funding relative to target and the suitability of the investment agreements with a view to the plans' current situation.

The current investment target of the ASD PLC Retirement Benefit Scheme (by far the more material of the two plans) is a return exceeding that on United Kingdom government bonds by about 3% per annum.

The Klöckner & Co Group's Swiss companies and their employees fund pensions through a legally independent pension fund subject to the Swiss Occupational Pensions Act (BVG). The D&A Group pension fund, Pensionskasse der D&A-Gruppe, is a Swiss-law trust domiciled in St. Gallen, Switzerland. It has the purpose of providing old-age, survivors' and disability benefit plans for company employees. These plans are provided by the fund on a mandatory basis under the Swiss Occupational Pensions Act, for which purpose it is listed in the occupational benefit plans register. The Board of Trustees, as the supreme governing body of the pension fund, consists of equal numbers of employee and employer representatives and is responsible for the trust's financial stability and performance. The insurance plan is set out in a charter and provides for benefits that exceed the statutory minimum benefits. Employer and employee contributions are set as a percentage of pensionable earnings and financed by equal contributions. The lifelong retirement pension is determined by the size of the pension balance on retirement multiplied by conversion rates specified in the charter. Employees can alternatively have retirement benefits paid out as a lump sum. Survivors' and spouse's pensions are specified as percentages of pensionable earnings. The pension fund bears the actuarial and investment risk itself. Investing the assets is the responsibility of the pension fund. This sets the investment strategy and oversees the investment process and the asset manager. The investment strategy is periodically reviewed by the Board of Trustees and is specified in such a way that the insured benefits can be paid when due.

Swiss law provides for minimum guaranteed benefits, and the Board of Trustees may adopt restructuring measures in the event of a trust fund deficit (or impending deficit); this may also take place at the employer's expense. The pension arrangement consequently qualifies as a defined benefit plan under IAS 19.

In the USA, pension benefits are provided in the form of a defined contribution plan and several defined benefit plans. A 401 (k) plan gives employees the option to pay a set percentage of their basic salary into a fund, thus entitling them to a subsidy from the employer. Employees who joined the Company by December 31, 2013 participate in a defined benefit plan that provides a life annuity equaling a set percentage of eligible salary for each qualifying year of service, or a fixed amount for unionized employees. Alongside the aforesaid regular pension plans in the USA, there is also a retiree welfare plan, likewise closed to new entrants, with post-retirement healthcare benefits for former employees of an acquired company. In general, all of the above are funded plans. Under US law, employers must pay funding contributions to a plan if a special solvency assessment shows funding to fall short of 100%. The only exception is a plan for upper management, which is exclusively financed through provisions. The retiree welfare plan is also financed entirely out of provisions.

In order to reduce risks related to volatility in the funded status of the defined benefit asset-based plans due to changes in discount rates and capital markets, a liability-driven investment strategy has been implemented with assets selected to match the duration of the liabilities. Investment and directives on the payment of employer contributions are integrated into this approach, which has the objective of maintaining and/or improving the plans' actuarial funded status.

The main elements of the investment strategy specified in the directive are as follows:

• Establishment of two portfolios for each plan – a liability-driven portfolio matching the durations of the plan liabilities and a growth-driven portfolio to generate attractive long-term returns, ideally above the discount rate.

• Risk reduction for the investments applying a predefined glide path investment strategy when the plans' actuarial funded status improves.

RISKS ASSOCIATED WITH DEFINED BENEFIT PLANS

The main risk other than normal actuarial risk – including longevity risk and foreign exchange risk – relates to financial risk associated with plan assets.

On the pension liability side, this mostly means inflation risk on plans with salary-linked benefits (notably final salary plans); a marked rise in pay would increase the obligation under these plans. Plans of this kind exist only on a small scale in the Klöckner & Co Group or are largely closed to new entrants.

Regarding increases to pensions currently in payment, there is, with one exception, no pension arrangement within the Klöckner & Co Group that carries an obligation to increase the benefit amount in excess of inflation or in excess of the surplus generated on plan assets. Only for a number of entitlements for executive staff in Germany is there a commitment to increase benefits by 1% a year from retirement regardless of actual inflation.

The return on plan assets in accordance with IAS 19 is assumed on the basis of the discount rate for the defined benefit obligation. If the actual rate of return is below the discount rate, the net liability goes up. For the funded plans, however, notably given the share of plan assets invested in equities, we expect that long-term returns will exceed the discount rate. Nonetheless, short to medium-term fluctuations cannot be ruled out, with a corresponding effect on the net liability.

With the defined contribution plans, the Company pays contributions to private or state pension funds under statutory or contractual obligations. The Company's employee benefit obligations are settled on payment of the contributions. The amount recognized as expense for this purpose in the fiscal year was €9,735 thousand (2020: €8,814 thousand). This does not include employer contributions to the statutory pension insurance scheme. These amounted to €7,452 thousand in Germany (2020: €7,536 thousand).

In the fiscal year, for countries with material pension obligations, the following actuarial assumptions were used in the actuarial calculations performed by third-party actuaries:

2021

in %	Germany	Switzerland	United Kingdom	France	United States
Discount rate	0.90	0.25	1.85	0.90	2.62
Salary trend	2.70	0.50	2.65	1.75	3.50
Pension trend	2.00	0.00	3.10	1.25	0.00

2020

in %	Germany	Switzerland	United Kingdom	France	United States
Discount rate	0.40	0.15	1.40	0.40	2.35
Salary trend	2.50	0.50	2.15	1.75	3.50
Pension trend	1.75	0.00	2.75	1.25	0.00

The discount rates reflect the bond markets' interest rates in the respective jurisdiction for high-quality corporate bonds with corresponding maturities. A uniform discount rate was selected for the eurozone.

The mortality assumptions used for pension accounting in the various countries are as follows:

	2021	2020
Germany	Richttafeln 2018 G von Prof. Dr. Klaus Heubeck	Richttafeln 2018 G von Prof. Dr. Klaus Heubeck
Switzerland	BVG 2020	BVG 2015
United Kingdom	SAPS	SAPS
France	INSEE 14–16; TGH05	INSEE 14–16; TGH05
United States	Retirement Plan 2021	Retirement Plan 2020

There are also reimbursement rights – primarily life insurance policies and claims under other insurance policies – used to fund pension obligations. These changed as follows in the fiscal year:

(€ thousand)	2021	2020
Reimbursement rights as of January 1	**3,805**	**3,860**
Expected return	15	30
Actuarial gains (losses)	285	140
Benefits paid	– 397	– 225
Reimbursement rights as of December 31	**3,708**	**3,805**

The actual return on reimbursement rights was €300 thousand in the fiscal year (2020: €171 thousand).

The net provision changed as follows:

	Defined benefit obligation		Fair value of plan assets		Net provision/assets	
(€ thousand)	**2021**	2020	**2021**	2020	**2021**	2020
As of January 1	1,195,560	1,170,766	– 953,555	– 891,846	242,005	278,920
thereof fully or partly funded	979,241	949,338				
Included in statement of income						
Service cost	18,614	18,345	-	-	18,614	18,345
Interest cost for pension plans	9,783	13,664	-	-	9,783	13,664
Interest income from plan assets	-	-	– 8,029	– 10,792	– 8,029	– 10,792
Administration expenses	-	-	1,589	1,623	1,589	1,623
Settlements/amendments	– 53	–9,283	-	-	– 53	–9,283
	28,344	**22,726**	**– 6,440**	**– 9,169**	**21,904**	**13,557**
Included in other comprehensive income						
Actuarial losses (gains) due to change in demographic assumptions	– 21,255	– 429	-	-	– 21,255	– 429
Actuarial losses (gains) due to change in financial assumptions	– 37,450	79,788	-	-	–37,450	79,788
Experience losses (gains)	598	2,867	-	-	598	2,867
Revaluation of plan assets	-	-	– 41,908	– 90,482	– 41,908	– 90,482
Foreign currency exchange rate differences	52,382	–26,737	– 55,756	23,258	– 3,374	–3,479
	– 5,725	**55,489**	**– 97,664**	**– 67,224**	**– 103,389**	**–11,735**
Other						
Employee contributions	12,774	14,212	– 12,774	– 14,212	-	-
Employer contributions	-	-	– 275,974	– 23,015	– 275,974	– 23,015
Benefits paid	– 58,705	– 67,633	54,975	51,911	– 3,730	– 15,722
Transfers	-	-	-	-	-	-
	– 45,931	**– 53,421**	**– 233,773**	**14,684**	**– 279,704**	**– 38,737**
As of December 31	**1,172,248**	**1,195,560**	**– 1,291,432**	**– 953,555**	**–119,184**	**242,005**
thereof included in consolidated statement of other non-financial assets					169,209	45,537
Provisions for pensions and similar obligations					50,025	287,542
thereof fully or partly funded	1,133,785	979,241				

The table below shows the analysis of the net provision (asset) by countries:

	December 31, 2021			December 31, 2020		
(€ thousand)	Defined benefit obligation	Fair value of plan assets	Net provision/ assets	Defined benefit obligation	Fair value of plan assets	Net provision/assets
Germany	227,972	229,236	–1,264	247,926	37,802	210,124
Austria	1,434	-	1,434	1,536	-	1,536
France	21,622	-	21,622	24,249	285	23,964
United Kingdom	118,036	158,570	–40,534	115,193	95,658	19,535
Switzerland	528,891	653,581	–124,690	545,542	588,494	–42,952
USA	274,293	250,045	24,248	261,114	231,316	29,798
Total	**1,172,248**	**1,291,432**	**–119,184**	**1,195,560**	**953,555**	**242,005**

The table below shows how the defined benefit obligation would have been affected by changes in key actuarial assumptions:

(€ thousand)	2021	2020
Present value of benefit obligation if		
discount rate would be higher by 50 basis points	1,092,665	1,108,223
discount rate would be lower by 50 basis points	1,262,985	1,294,281
the expected salary trend would be higher by 0.5%	1,177,268	1,201,613
the expected salary trend would be lower by 0.5%	1,167,370	1,189,593
pension increase would be higher by 0.5%	1,217,389	1,244,540
pension increase would be lower by 0.5%	1,157,991	1,178,801
longevity would be 1 year longer	1,217,951	1,241,060

The sensitivities indicated are computed on the basis of the same methods and assumptions as are used to determine the present value of the defined benefit obligations. If one of the actuarial assumptions is changed for the purpose of computing the sensitivity of results to changes in that assumption, all other actuarial assumptions are held constant.

When appraising sensitivities, it should be noted that the change in the present value of the defined benefit obligation resulting from changing multiple actuarial assumptions simultaneously is not necessarily equivalent to the cumulative effect of the individual sensitivities.

The table below disaggregates plan assets into classes of asset:

	December 31, 2021			December 31, 2020		
(€ thousand)	Price quote from active market	No price quote from active market	Total	Price quote from active market	No price quote from active market	Total
Shares	248,012	10,663	258,675	210,064	19,319	229,383
Investment Fonds	189,946	-	189,946	-	-	-
Bonds	170,480	238,026	408,506	161,011	208,665	369,676
Real estate	56,209	158,166	214,375	48,586	153,856	202,442
Other assets	180,549	39,381	219,930	112,903	39,151	152,054
Fair value of plan assets as of December 31	**845,196**	**446,236**	**1,291,432**	**532,564**	**420,991**	**953,555**

Plan assets do not include any of the entity's own transferable financial instruments; plan assets that are property occupied by, or other assets used by, the entity totaled €16,383 thousand (2020: €15,851 thousand).

Other assets mainly include the following:

	December 31, 2021			December 31, 2020		
(€ thousand)	Germany	Switzerland	United Kingdom	Germany	Switzerland	United Kingdom
Pledged reinsurance claims	39,290	-	-	37,802	-	-
Cash and cash equivalents	-	37,254	60,700	-	42,960	5,739
Commodities	-	31,947	-	-	25,829	-
Infrastructure (Alternative investments)	-	15,359	-	-	11,782	-
Private Debt	-	6,758	-	-	906	-
Hedge funds	-	4,301	-	-	6,797	-
Insurance Linked Securities	-	3,072	-	-	-	-
Mixed fund	-	-	21,158	-	-	18,890

The actual return on plan assets was €49,937 thousand in the fiscal year (2020: €101,273 thousand).

Losses relating to experience adjustments in the present value of the defined benefit obligation in the year under review were €598 thousand (2020: €2,867 thousand); gains relating to experience adjustments to the fair value of plan assets were €41,908 thousand (2020: €90,482 thousand).

The weighted average duration was 15 years. Employer contributions to plan assets for fiscal year 2022 are expected to amount to €8,994 thousand.

The maturity analysis of benefit payments is as follows:

(€ thousand)	
Future benefit payments	
- due in 2022	47,029
- due in 2023	44,986
- due in 2024	44,708
- due in 2025	45,994
- due in 2026	47,675
- due 2027–2031	235,740

(25) Other provisions and accrued liabilities

Accounting policies

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

Provisions are recognized at the expected settlement amount and not net of any reimbursement rights. The settlement amount also includes any cost increases to be taken into account at the reporting date. Where the effect of the time value of money in connection with settlement of the obligation is material, provisions are discounted at rates that reflect current market assessments of the time value of money and the risks specific to the liability.

Warranty provisions are recognized on the basis of the estimated probability of claims. Provisions are recognized for onerous sale or purchase contracts when the total costs of meeting the obligations under the contract exceed the expected sales.

Provisions for restructuring measures are recognized if there is a detailed restructuring plan and it has been announced to those affected.

Provisions for onerous contracts are recognized if the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Other provisions changed as follows in the reporting year:

(€ thousand)	As of January 1, 2021	Additions	Accretion	Utilization	Reversals	Other changes*)	As of December 31, 2021
Other provisions							
Other taxes	3,647	327	-	– 326	– 12	54	3,690
Personnel-related obligations							
– anniversary payments	8,696	224	1	– 608	– 46	164	8,431
– other	286	201	-	– 432	– 7	1,599	1,647
Onerous contracts	4,003	656	-	– 3,890	-	7	776
Restructuring expenses	52,046	12,816	-	– 32,949	– 3,436	– 740	27,737
Pending litigation	2,709	1,147	-	– 338	– 502	579	3,595
Warranties	1,580	378	-	– 20	– 341	22	1,619
Miscellaneous provisions	22,486	15,271	43	– 5,370	– 1,977	1,223	31,676
	95,453	**31,020**	**45**	**– 43,932**	**– 6,321**	**2,909**	**79,172**
Other accrued liabilities							
Personnel-related obligations	49,155	59,069	-	– 32,536	– 1,569	– 281	73,838
Miscellaneous accrued liabilities	9,778	7,231	-	– 5,226	– 8	588	12,364
	58,933	**66,300**	**-**	**– 37,762**	**– 1,577**	**306**	**86,202**
Other provisions and accrued liabilities	**154,386**	**97,320**	**45**	**– 81,694**	**– 7,898**	**3,215**	**165,374**

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

Analysis by maturities:

	December 31, 2021		December 31, 2020	
(€ thousand)	Non-current	Current	Non-current	Current
Other provisions				
Other taxes	42	3,649	11	3,636
Personnel-related obligations				
– anniversary payments	8,431	-	8,696	-
– other	323	1,324	232	54
Onerous contracts	-	776	8	3,995
Restructuring expenses	-	27,737	-	52,046
Pending litigation	15	3,581	44	2,665
Warranties	-	1,618	-	1,580
Miscellaneous provisions	8,542	23,134	6,653	15,833
	17,352	**61,820**	**15,644**	**79,809**
Other accrued liabilities				
Personnel-related obligations	-	73,837	-	49,155
Miscellaneous accrued liabilities	-	12,364	-	9,778
	-	**86,202**	**-**	**58,933**
Other provisions and accrued liabilities	**17,352**	**148,022**	**15,644**	**138,742**

The provisions for other taxes mainly relate to value added tax and real estate tax.

Personnel-related obligations relate in the amount of €8,431 thousand (2020: €8,696 thousand) to anniversary payments in France and Switzerland. The determination of the provision is based on actuarial calculations with interest rates of 0.9% (2020: 0.4%) and 0.25% (2020: 0.15%). The other provisions for personnel-related obligations mainly relate to additional employee benefits such as parental leave.

The provisions for onerous contracts relate to contractual obligations in which contract fulfillment results in a loss.

The provisions for restructuring relate to obligations resulting from termination benefits granted in redundancy programs in an amount of €26,830 thousand (2020: €49,988 thousand) and other restructuring expenses for site closures in an amount of €907 thousand (2020: €2,057 thousand) that either result in an outflow of resources in the following year or, to the extent they are material, are recognized as of the reporting date at their discounted settlement amount. The provisions for site closures and social plans were determined on the basis of cost estimates (for example, site rent still to be paid for closed sites) or derived from experience from comparable social plans.

The provisions for pending litigation cover expenses for various legal proceedings and claims that may result, in particular, in the payment of damages or other cost-intensive measures.

Provisions for warranties are recognized at the time of sale of the goods or provision of the services concerned. The size of the provision is based on the historical development of warranties and an analysis of all possible future warranty events weighted by probability of occurrence

Miscellaneous provisions relate among other things to provisions for asset retirement obligations and provisions for environmental remediations.

Accrued liabilities for employee-related obligations include bonus payments of €59,967 thousand (2020: €34,096 thousand) as well as vacation entitlements and flextime balances in the amount of €10,723 thousand (2020: €11,615 thousand).

The miscellaneous accrued liabilities relate to customer bonuses, discounts, commissions and other bonuses.

(26) Financial liabilities

The details of financial liabilities are as follows:

	December 31, 2021				December 31, 2020			
(€ thousand)	up to 1 year	1-5 years	Over five years	Total	up to 1 year	1-5 years	Over five years	Total
Bonds	920	141,130	-	142,050	145,867	-	-	145,867
Liabilities to banks	37,298	285,516	7,400	330,214	6,725	69,051	8,200	83,976
Liabilities under ABS program	188,931	-	-	188,931	98	111,198	-	111,296
Finance lease liabilities	33,500	85,052	37,348	155,900	33,927	94,007	51,582	179,516
	260,649	**511,698**	**44,748**	**817,095**	**186,617**	**274,256**	**59,782**	**520,655**

Financial liabilities of €14,472 thousand (2020: €20,532 thousand) are secured by liens. Inventories as set out in Note 17 (Inventories) and trade receivables as set out in Note 18 (Trade receivables and contract assets) are also pledged as collateral.

Transaction costs directly attributable to the assumption of financial liabilities in the amount of €2,521 thousand (2020: €3,209 thousand) have been deducted from the liabilities.

Bonds
A €148 million senior unsecured convertible bond issue was placed with non-US institutional investors closing September 8, 2016. The issuer is Klöckner & Co Financial Services S.A., a wholly-owned Luxembourg subsidiary. The bonds are guaranteed by Klöckner & Co SE and are convertible into new or existing shares in Klöckner & Co SE. Klöckner & Co uses the proceeds from the issue for general business purposes.

The coupon on the bonds was set at 2,00% p.a. and the conversion premium at 27.5% over the issue date reference price, corresponding to an initial conversion price of €14.82. In accordance with the bond terms, the conversion price was adjusted to €13.3305 following the dividend payouts in May 2017, May 2018 and May 2019. The bond has a seven-year term. Under the bond terms, holders have an investor put option under which they can demand early redemption after five years at par value plus accrued interest. The issuer did not have an early call option during the first five years. It does have such an option thereafter provided the market price of Klöckner & Co shares exceeds 130% of the conversion price over certain stipulated periods. As holders of the convertible bond did not exercise their investor put option as of September 8, 2021, the bond was classified as a non-current financial liability maturing September 2023. As a result, the debt component was remeasured through profit or loss in the reporting year. The one-time interest income of €8 million resulting from the remeasurement will be offset in an equal amount over the residual maturity by the unwinding of the discount on the liability.

For accounting purposes, the convertible bond issue is divided into an equity and a debt component. The equity component at the time of issue was €18 million after deducting transaction costs and accounting for deferred taxes. It was credited to capital reserves.

Liabilities to banks

In a contract amendment in December 2021, the facility amount of the syndicated loan was reduced from €300 million to €250 million and the loan extended on improved terms to January 2025. This further improved the maturity profile of Klöckner & Co's Group finances. As before, the facility is provided by a syndicate of eight banks.

The financial covenants require that gearing, defined as net financial debt divided by the book value of equity attributable to shareholders of Klöckner & Co SE less goodwill resulting from acquisitions after May 23, 2019, may not exceed 165%. The thus adjusted book value of equity attributable to shareholders of Klöckner & Co SE may not fall below €600 million (minimum equity). Breach of the financial covenants would require repayment of all outstanding amounts. Subsequent drawings would then be possible if the covenants were once again complied with. Throughout fiscal year 2021, the Group consistently complied with all loan terms, including the financial covenants.

The remaining liabilities to banks comprise bilateral borrowings by the country organizations. Most of this is accounted for by the ABL facility arranged at the US country organization in November 2020. The ABL facility matures in March 2024 and is provided by three banks. The size of the facility is USD 330 million. There are also other bilateral borrowings at the country organizations, used among other things to finance net working capital.

Liabilities under ABS program

Since July 2005, the Klöckner & Co Group has operated a European ABS program. The program has a size of €220 million and runs to October 2023. The agreed covenants are also based on the statement of financial position and are equivalent to those for the syndicated loan.

Utilization of the program including accumulative interest totaled €189 million as of the reporting date and breaks down as follows:

(€ million)	December 31, 2021	December 31, 2020
– utilization	189	112
– maximum volume	220	220

For further information on the ABS program, see Note 3 (Basis of consolidation and consolidation methods) and Note 18 (Trade receivables and contract assets).

Finance lease liabilities
Finance lease liabilities have the following term structure:

(€ thousand)	December 31, 2021	December 31, 2020
Due within one year	38,004	38,093
Due between one and five years	96,859	104,412
Due after five years	48,146	60,308
Future minimum lease payments (nominal value)	**183,009**	**202,813**
Due within one year	4,504	4,166
Due between one and five years	11,807	10,405
Due after five years	10,798	8,726
Interest included in future minimum lease payments	**27,109**	**23,297**
Due within one year	33,500	33,927
Due between one and five years	85,052	94,007
Due after five years	37,348	51,582
Total present value of future minimum lease payments	**155,900**	**179,516**

(27) Trade payables

(€ thousand)	December 31, 2021	December 31, 2020
Trade payables	809,396	458,403
Provisions for pending invoices	28,736	14,003
Bills payable	17	-
Trade payables	**838,149**	**472,406**

(28) Other financial and non-financial liabilities

	December 31, 2021		December 31, 2020	
(€ thousand)	Current	Non-current	Current	Non-current
Other financial liabilities	**32,625**	**137**	**25,641**	**137**
Negative fair value of derivative financial instruments	1,705	-	2,470	-
Customers with credit balances	17,647	-	12,009	-
Miscellaneous other financial liabilities	13,273	137	11,162	137
Other non-financial liabilities	**6,038**	**-**	**2,812**	**-**
Contract liabilities	5,099	-	1,829	-
Advance payments received	939	-	983	-
Other non-financial liabilities	**48,141**	**-**	**53,342**	**2,176**
Value-added tax liabilities	17,623	-	11,622	-
Other tax liabilities	20,538	-	11,773	-
Deferred income	1,729	-	1,620	-
Liabilities to employees	1,902	-	6,936	-
Social security contributions	5,623	-	4,946	2,176
Miscellaneous other non-financial liabilities	726	-	16,445	-
Other liabilities	**86,804**	**137**	**81,795**	**2,313**

Other disclosures

(29) Information on capital management

The Klöckner & Co Group determines its capital requirements in relation to risk. Management of and any adjustment in the capital structure is carried out with due regard to changes in the economic environment. Options for maintaining or adjusting the capital structure include adjusting dividend payments, capital repayments to shareholders, issuing new shares and the sale of assets to reduce liabilities.

Capital is managed on the basis of gearing. The Klöckner & Co Group's target is to maintain gearing below the 165% (2020: 165%) required under the financial covenants in order to be able to continue borrowing on reasonable terms.

Further information about the basis of calculation for gearing and about minimum capital requirements is provided in Note 26 (Financial liabilities).

Gearing is determined as follows:

(€ thousand)	December 31, 2021	December 31, 2020	Variance
Financial liabilities	817,095	520,655	296,440
Transaction costs	2,521	3,210	– 689
Liquid funds	– 57,628	– 172,566	114,938
Net financial debt (before deduction of transaction cost)	**761,988**	**351,299**	**410,689**
Consolidated shareholders' equity	1,827,348	1,043,138	784,210
Non-controlling interests	– 15,731	– 7,108	– 8,623
Adjusted shareholders' equity	**1,811,616**	**1,036,030**	**775,586**
Gearing	**42.1%**	**33.9%**	**8.2%p**

(30) Financial instruments

Accounting policies

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

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

The fair value option provided by IFRS 9 (Financial Instruments) is not applied.

Financial instruments are measured on initial recognition at fair value. Transaction costs directly attributable to the acquisition or issue of a financial instrument are included in the carrying amount except in the case of financial instruments at fair value through profit or loss. Subsequent measurement of financial assets is carried out using the categories under IFRS 9 (Financial Instruments) according to business model and contractual cash flow characteristics. This results in measurement at amortized cost, at fair value through profit or loss or at fair value through other comprehensive income. Financial liabilities are measured at amortized cost or at fair value through profit or loss.

a) Non-derivative financial assets and financial liabilities and equity instruments issued by Klöckner & Co
Cash and cash equivalents include cash on hand, bank balances and short-term securities with an original maturity of less than three months with an insignificant risk of changes in value. They are measured at nominal value. Foreign currency balances are measured at the mid-point rate at the reporting date. Financial assets at fair value through profit or loss include financial assets initially classified as held for trading. In the Klöckner & Co Group, this classification is applied exclusively to derivative financial instruments that are designated hedging instruments to which hedge accounting is applied. Such assets are presented as other assets in the statement of financial position.
Financial assets and financial liabilities are measured at amortized cost using the effective interest method. Also classified in this category are non-current securities that are not quoted in an active market and long-term loans measured at amortized cost.

Equity investments within the scope of IFRS 9 are measured at fair value through profit or loss. The Klöckner & Co Group makes use, on a case-by-case basis, of the option of measuring a portion of equity investments at fair value through other comprehensive income. Any gains or losses realized on disposal or write-off are reclassified to retained earnings. Fair value changes on investments for which the aforementioned option is not exercised are recognized in profit or loss.

All identifiable risks are accounted for by recognizing appropriate valuation allowances for expected credit losses taking into account any credit insurance. These are determined on the basis of weighted probabilities and applied to financial assets measured at amortized cost or at fair value through other comprehensive income.

The three-stage impairment model is generally applied. A risk allowance is recognized in the amount of the expected 12-month credit losses (Stage 1) or in the amount of the expected lifetime credit losses if the credit risk has increased significantly since initial recognition (Stage 2) or if financial assets are credit-impaired (Stage 3). Financial assets are considered to be credit-impaired if there is objective evidence such as substantial financial difficulty on the part of the obligor, knowledge of an insolvency filing or overdue obligations. In the event that a financial asset is categorized as bad debt, it is written off, including the amount of the impairment.

An equity or debt instrument is classified as a financial liability or as equity according to the substance of the contractual agreement. Equity instruments are recognized in the amount of the issue proceeds less directly attributable transaction costs.

The components of compound financial instruments such as convertible bonds are recognized separately as financial liabilities and equity. At the issue date, the fair value of the liability component is determined by discounting at the market interest rate for comparable financial instruments without conversion rights. Subsequent accounting of the liability component as a financial liability is on an amortized cost basis until conversion or maturity of the bond. Applying the residual method, the remaining difference represents the equity component, which is accounted for in capital reserves with no subsequent adjustment.

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

In the Klöckner & Co Group, only derivative financial instruments that are not designated and effective as hedging instruments are recognized as liabilities at fair value through profit or loss. Any negative fair value of such instruments is presented in other liabilities.

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

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

b) Derivative financial instruments
The Group uses a variety of derivative financial instruments to manage its exposure to interest and foreign exchange rate risks. These include forward exchange transactions, currency swaps, cross-currency swaps, interest rate swaps and interest rate caps.

Derivatives are initially measured at fair value on inception and subsequently measured at fair value at each reporting date. Any gain or loss from a change in the fair value of a derivative financial instrument that is not a designated and effective cash flow hedge or hedge of a net investment is immediately recognized in profit or loss. For derivative financial instruments that are designated hedges, the timing of the recognition of gains or losses depends on the type of hedge. The Klöckner & Co Group uses certain derivative financial instruments to hedge recognized assets or liabilities. Certain unrecognized firm commitments are also hedged.

Forward exchange transactions are measured item by item at the forward rate as of the reporting date, and exchange differences arising due to the contracted forward exchange rate are recognized in profit or loss.

Interest exchange amounts from interest rate swaps are recognized in profit or loss at the payment date or on accrual at the reporting date. In all other respects, interest rate swaps, like interest rate caps, are measured at fair value at the reporting date and – unless hedge accounting is applied – changes in their fair value during the reporting period are recognized in profit or loss.

Derivatives held for hedging purposes are classified as non-current assets or liabilities if the remaining term of the hedging relationship is more than twelve months and as current assets or liabilities if the remaining term of the hedging relationship is less than twelve months.

Derivatives not designated in a hedging relationship are classified as current assets or liabilities.

c) Hedge accounting

With regard to hedge accounting, Klöckner & Co makes use of the option of accounting for hedges in accordance with IAS 39 until further notice.

The Klöckner & Co Group designates individual derivatives held for hedging purposes either as cash flow hedges or as hedges of foreign net investments, according to volume, term and risk structure.

The relationship between the hedged item and the hedging instrument, including the risk management objectives and the Company's strategy for undertaking the hedge, are documented at the inception of the hedge. At the inception of the hedge and regularly on an ongoing basis, the hedge is assessed and it is documented whether the hedge is highly effective in offsetting changes in the cash flows attributable to the hedged risk or the net investment. Changes in the reserve for fair value adjustments of financial instruments within other comprehensive income are shown in the summary of changes in consolidated equity.

The effective portion of the change in the fair value of derivative financial instruments designated as cash flow or net investment hedges is recognized in other comprehensive income; the ineffective portion is recognized directly in profit or loss. The amounts recognized in other comprehensive income are reclassified to profit or loss in the period in which the hedged item is recognized in profit or loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or ceases to be effective. Any cumulative gain or loss that has been recognized in other comprehensive income from changes in the fair value of the derivative remains in other comprehensive income and is reclassified to profit or loss when the forecast transaction is recognized in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss recognized in other comprehensive income is immediately recognized in profit or loss.

Additional disclosures on financial instruments

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

Financial assets as of December 31, 2021 (*€ thousand*)	Presented in the Statement of Financial Positions as	Carrying amount	Category: Fair value recognized in profit and loss	Category: Fair value recognized in equity	Category: Amortized costs	Fair value: Level 1	Fair value: Level 2	Fair value: Level 3	Fair value: Total
Measured at fair value									
Derivative financial instruments not designated in hedge accounting (held for trading)	Current and non-current other assets	111	111	-	-	-	111	-	111
Participations	Financial assets	22,386	22,386	-	-	-	-	22,386	22,386
Short term deposits (< 3 months)	Cash and cash equivalents	7,275	7,275	-	-	-	7,275	-	7,275
Not measured at fair value									
Trade receivables and contract assets	Trade receivables and contract assets	885,145	-	-	885,145	-	-	-	-
Cash and cash equivalents	Cash and cash equivalents	50,353	-	-	50,353	-	-	-	-
Other financial assets at cost	Current and non-current other assets	26,000	-	-	26,000	-	26,000	-	26,000
Other financial assets at cost	Bonus claims to suppliers	55,543	-	-	55,543	-	-	-	-
Total		**1,046,813**	**29,772**	**-**	**1,017,041**	**-**	**33,386**	**22,386**	**55,772**

Financial liabilities as of December 31, 2021 (€ thousand)	Presented in the Statement of Financial Positions as	Carrying amount	Category: Fair value recognized in profit and loss	Category: Fair value recognized in equity	Category: Amortized costs	Fair value: Level 1	Fair value: Level 2	Fair value: Level 3*)	Fair value: Total
Measured at fair value									
Derivative financial instruments not designated in hedge accounting (held for trading)	Other current and non-current liabilities	1,705	1,705	-	-	-	1,705	-	1,705
Not measured at fair value									
Financial liabilities at cost	Current and non-current financial liabilities	661,195	-	-	661,195	-	678,204	-	678,204
Lease liabilities	Current and non-current financial liabilities	155,901	-	-	155,901	-	-	-	-
Trade payables	Trade payables	838,149	-	-	838,149	-	-	-	-
Other financial liabilities at cost	Other non-current liabilities	137	-	-	137	-	-	137	137
Other financial liabilities at cost	Other current liabilities	30,919	-	-	30,919	-	-	-	-
Total		**1,688,006**	**1,705**	**-**	**1,686,301**	**-**	**679,909**	**137**	**680,046**

*) No fair value was disclosed for the remaining amount of other non-current liabilities measured at amortized cost because the fair value corresponds to the carrying amount.

Financial assets as of December 31, 2020			Category			Fair value			
(€ thousand)	Presented in the Statement of Financial Positions as	Carrying amount	Fair value recognized in profit and loss	Fair value recognized in equity	Amortized costs	Level 1	Level 2	Level 3	Total
Measured at fair value									
Derivative financial instruments not designated in hedge accounting (held for trading)	Current and non-current other assets	3,235	3,235	-	-	-	3,235	-	3,235
Participations	Financial assets	14,437	13,437	1,000	-	-	-	14,437	14,437
Short term deposits (< 3 months)	Cash and cash equivalents	2,865	2,865	-	-	-	2,865	-	2,865
Not measured at fair value									
Trade receivables and contract assets	Trade receivables and contract assets	543,326	-	-	543,326	-	-	-	-
Cash and cash equivalents	Cash and cash equivalents	169,701	-	-	169,701	-	-	-	-
Other financial assets at cost	Current and non-current other assets	16,652	-	-	16,652	-	16,652	-	16,652
Other financial assets at cost	Bonus claims to suppliers	43,253	-	-	43,253	-	-	-	-
Total		**793,469**	**19,537**	**1,000**	**772,932**	**-**	**22,752**	**14,437**	**37,189**

Financial liabilities as of December 31, 2020			Category			Fair value			
(€ thousand)	Presented in the Statement of Financial Positions as	Carrying amount	Fair value recognized in profit and loss	Fair value recognized in equity	Amortized costs	Level 1	Level 2	Level 3*)	Total
Measured at fair value									
Derivative financial instruments not designated in hedge accounting (held for trading)	Other current and non-current liabilities	2,470	2,470	-	-	-	2,470	-	2,470
Not measured at fair value									
Financial liabilities at cost	Current and non-current financial liabilities	341,139	-	-	341,139	-	346,688	-	346,688
Lease liabilities	Current and non-current financial liabilities	179,516	-	-	179,516	-	-	-	-
Trade payables	Trade payables	472,406	-	-	472,406	-	-	-	-
Other financial liabilities at cost	Other non-current liabilities	2,313	-	-	2,313	-	-	137	137
Other financial liabilities at cost	Other current liabilities	23,171	-	-	23,171	-	-	-	-
Total		**1,021,015**	**2,470**	**-**	**1,018,545**	**-**	**349,158**	**137**	**349,295**

*) No fair value was disclosed for the remaining amount of other non-current liabilities measured at amortized cost because the fair value corresponds to the carrying amount.

Measurement of the fair value of the equity investments in the amount of €22,386 thousand (2020: €14,437 thousand) is classified as level 3. These are mostly unquoted financial instruments (equity investments) for which there is no active market. Of the change in the fiscal year, a decrease of €1,566 thousand (2020: increase of €5,795 thousand) is attributable to capital measures and an increase of €9.506 thousand (2020: decrease of €190 thousand) to changes in fair value. Fair value is measured on the basis of available financial information, such as transaction prices for financing rounds or business plans to the extent that this information is reliable, or, as an approximation, as cost, which is considered an appropriate estimate of fair value as no more suitable information is available. A review is carried out on a quarterly basis using all information available on the equity investments to establish whether cost is still representative of fair value. This would no longer be the case, for example, in the event of a change in the economic environment, a significant change in the market in which the equity investments are active or other events relevant to measurement. As cost is the sole input factor for fair value, a percentage change in cost results in an equal change in fair value. The estimated fair value would increase (decrease) with any increase (decrease) in cost. Given the size of the investment amount, even a 10% increase in cost would not have a material impact on fair value.

The fair values of non-current financial liabilities are determined on the basis of risk-adjusted discounted cash flows.

In the case of current financial assets (mostly other assets), fair values are largely identical to carrying amounts. The fair values of financial liabilities reflect the current market situation for the respective financial instruments as of December 31, 2021. Their fair values are not reduced by transaction costs. For current financial liabilities, when there are no transaction costs to be deducted, their carrying amount is identical to fair value.

Financial instruments are classified as Level 1 if the fair value is obtained from quoted prices in active markets. Fair values determined using other directly observable market inputs are classified as Level 2.

There is no indication of any change in the fair interest rates determined on initial recognition. For this reason, fair value is based on the carrying amount. Changes in hierarchy levels are taken into account at the end of the period in which the change took place. There were no transfers between hierarchy levels during the reporting year.

The put liability from acquisition of the GSD Group in other non-current liabilities is a Level 3 fair value. The put option was entered into for a potential future transfer of non-controlling interests valued by discounting future earnings based on budget figures. The future earnings are based on budget figures. These liabilities totaled €137 thousand in the fiscal year (2020: €137 thousand).

Derivative financial instruments

Derivative financial instruments are accounted for at fair value in accordance with IFRS 9.

The Klöckner & Co Group is exposed to interest and currency risk in its operating business. This risk is hedged using derivative financial instruments.

The Group exclusively uses market instruments with sufficient market liquidity. Derivative financial instruments are entered into and managed in compliance with internal directives governing the scope of action, responsibilities and controls. According to these directives, the use of derivative financial instruments is a primary responsibility of the Corporate Treasury department of Klöckner & Co SE, which manages and monitors the use of such instruments. Such transactions are only entered into with credit institutions with impeccable ratings. Derivative financial instruments are not allowed to be used for speculative purposes and may only be used to hedge risks associated with hedged items.

The notional amounts and fair values of the derivative financial instruments in interest rate and currency hedges as of the reporting date are as follows:

	December 31, 2021		December 31, 2020	
(€ million)	**Not designated in hedge-accounting**	**Designated in hedge-accounting**	Not designated in hedge-accounting	Designated in hedge-accounting
Nominal values				
Forward exchange transactions	224.6	-	228.3	-
Fair values				
Forward exchange transactions	– 1.6	-	0.9	-

The notional amounts correspond to the non-netted sum of the currency and interest rate portfolio.

The fair values of the derivative financial instruments are determined on the basis of quantitative finance methods using standard banking models. Counterparty risk as of the measurement date is taken into account in the determination of fair values. Where market prices exist, these correspond to the price a third party would pay for the rights or obligations arising from the financial instruments. The fair values are the market values of the derivative financial instruments, irrespective of any offsetting changes in the value of hedged items.

Forward exchange contracts with a notional amount of €225 million (2020: €228 million) have a remaining maturity of less than one year. These include a notional amount of €128 million (2020: €185 million) for the hedging of intra-Group loans.

The contractual agreements with counterparties do not give rise to any rights of set-off to be disclosed in accordance with IFRS 7.13B as of December 31, 2021.

(31) Financial risk management

IFRS 7 requires an entity to provide disclosure that enables users of financial statements to evaluate the nature and the extent of risks arising from financial instruments. These risks encompass – among others – credit risk, market risk and liquidity risk. For a description of the methods, processes, responsibilities and objectives of the risk management system, please refer to the information provided in the Group management report under heading 5.3 (Risks and opportunities).

Credit risk
The Company's exposure to credit risk mainly arises from its operating business. A credit risk is defined as an unexpected loss on financial assets, such as if a customer is unable to meet its obligations when due. Operating receivables are locally monitored on an ongoing basis. Credit risk is taken into account by valuation allowances.

The maximum exposure to credit risk is reflected by the carrying amounts of financial assets in the statement of financial position. The Klöckner & Co Group addresses credit risk with its own credit management and by taking out trade credit insurance. In the fiscal year, €279 million (2020: €218 million) of trade receivables were covered by credit insurance.

Trade receivables
Prospective customers are credit-checked against an in-house risk board before order acceptance. Additionally, there is an active receivables management system incorporating trade credit insurance. The broadly diversified receivables pool is also used for financing purposes an ABS program in Europe and an ABL facility in the USA.

In addition to local monitoring by each subsidiary, Klöckner & Co SE also monitors significant credit risk at Group management level in order to better control specific individual risks and any cumulative risk.

There is no risk concentration at Group level as trade receivables relate to large numbers of customers from a variety of sectors and regions. Klöckner & Co applies the simplified approach to trade receivables and contract assets, recognizing the lifetime expected credit losses on inception. Determination of expected credit losses under the simplified approach is performed at Klöckner & Co in risk groups using historic credit loss rates. The assignment to risk groups is made on the basis of shared credit risk characteristics. For Klöckner & Co, these include a customer's geographical location and the past due status of contract assets.

Future-oriented information is incorporated by adjusting historic credit loss rates with scaling factors. These are based on gross domestic product (GDP) growth rates in each region, which were revised following the onset of the COVID-19 pandemic and are continuously monitored. Due to the structure of the receivables portfolio, the impact of this was small (under €1.1 million).

Contract assets relate to work in progress that has not yet been invoiced and generally have the same risk characteristics as trade receivables for the same types of contract. Klöckner & Co has therefore concluded that the expected credit loss rates on trade receivables not past due are a suitable approximation of loss rates for contract assets.

Individual valuation allowances are recognized under the simplified approach when one or more events have occurred that have a detrimental impact on the debtor's creditworthiness. Such events include payment delays, imminent insolvency or the granting of concessions to the debtor on account of payment difficulties. Trade receivables and contract assets are written off if recovery is no longer probable. This is the case, for example, if a debtor becomes insolvent.

(€ thousand)	2021	2020
Writedowns as at January 1 under IAS 39	13,687	15,228
Writedowns as at January 1 under IFRS 9	**13,687**	**15,228**
Utilisation	– 6,069	– 1,304
Additions	70	80
Exchange rate differences	266	– 317
Writedowns as of December 31	**7,954**	**13,687**

The change in the valuation allowance is mainly due to the increase/decrease in the gross carrying amount of trade receivables/contract assets that are credit-impaired.

The table below contains information on credit risk and expected credit losses on trade receivables and contract assets:

2021	Gross Trade receivables (€ thousand)	Average default rates (in %)	Expected Credit Loss (€ thousand)
Germany/Austria	153,460	0.063–0.086	99
Switzerland	93,569	0.047	39
United Kingdom	56,356	0.680	383
France	74,971	0.225	162
USA	455,555	0.058	264
The Netherlands	45,358	0.065	5
Other	13,830	0.069–0.137	58
Total	**893,099**	**0.047–0.680**	**1,010**
Writedowns	– 7,954		
Carrying amount Trade receivables	**885,145**		

2020	Gross Trade receivables (€ thousand)	Average default rates (in %)	Expected Credit Loss (€ thousand)
Germany/Austria	114,919	0.088–0.07	133
Switzerland	71,647	0.147	88
United Kingdom	37,361	0.834	312
France	65,734	0.305	242
USA	227,955	0.076	175
The Netherlands	29,744	0.150	5
Other	9,653	0.076–0.834	14
Total	**557,013**	**0.076–0.834**	**969**
Writedowns	– 13,687		
Carrying amount Trade receivables	**543,326**		

In addition to the expected credit losses, valuation allowances were recognized in the amount of €6,944 thousand (2020: €12,718 thousand) for incurred losses on trade receivables.

Cash and cash equivalents
As part of liquidity management, Klöckner & Co SE deposits cash and cash equivalents exclusively with the Group's core banks, which hold an investment grade rating. Their credit standing is also regularly monitored against credit default swaps (CDS).

Cash consists of bank balances and short-term deposits in the form of call and time deposits. The maximum investment period is 90 days.

On the basis of the limited investment period, the banks' credit ratings and current CDS premiums, cash and cash equivalents have low default risk. No material impairment losses were therefore recognized on cash and cash equivalents in fiscal year 2021.

Disclosures on interest rate risk
Klöckner & Co is exposed to interest rate changes due to the use of financial instruments. The hedging policy is geared to risk arising from interest rate changes on variable-rate financial liabilities. The Klöckner & Co Group faces interest rate risk exposure on its central financing instruments in the eurozone (syndicated loan; European ABS) and on local borrowings, notably by the US country organization (US ABL) and by the Swiss country organization (bilateral credit lines). There is additional interest rate risk exposure on short-term deposits of liquid funds at banks. The Corporate Treasury Department monitors and controls interest rate risk on financial liabilities.

As part of central Group financing, the Group's borrowing needs are primarily met with a diversified portfolio of financing instruments. These mainly comprise the working capital instruments (syndicated loan; European ABS; US ABL) supplemented by the September 2016 convertible bond issue. The working capital instruments are variable-rate financial instruments, generally with flexible drawing provisions. The convertible bond was issued with a fixed coupon and is subject to no interest rate risk for its entire term to maturity.

Taking into account the fixed-coupon convertible bond in the amount of €148 million, local borrowings in the amount of €23 million and lease liabilities in the amount of €156 million, as of December 31 2021 €327 million or some 40% (2020: €360 million or approximately 69%) of financial liabilities before transaction costs were fixed-rate.

Interest rate risk exposures and opportunities are presented using sensitivity analyses in accordance with IFRS 7. These show how interest income and expense and equity as of the reporting date are affected by changes in market interest rates. Interest rate risk is measured as cash flow risk.

Scenario-based sensitivity analysis is used to show the effects on Klöckner & Co's profit or loss of a parallel shift in yield curves in the relevant currencies. The cash flow effect of the shift in the yield curve relates solely to interest expense and income for the following reporting period.

On the basis of financial liabilities as of December 31, 2021 an increase in market interest rates on each of the relevant currencies by 100 basis points would have a negative effect on the financial result in the amount of approximately €4.9 million (2020: €1.7 million) for an analysis period of one year.

	2021	2020
	100 bp	100 bp
EUR	1.9	0.9
USD	2.4	0.5
GBP	0.4	0.3
CHF	0.2	0.0
Total	**4.9**	**1.7**

A rising interest rate scenario creates upside potential for the accumulated holdings of liquidity. Assuming a one-year investment period, an increase in market interest rates by 100 basis points would have a positive effect in the amount of €0.6 million (2020: €1.7 million).

	2021	2020
	100 bp	100 bp
EUR	0.3	1.1
USD	0.2	0.2
GBP	0.1	0.2
CHF	0.0	0.2
Total	**0.6**	**1.7**

Conversely, a decrease in market interest rates by 100 basis points would result in a substantially negative interest rate scenario in the eurozone and Switzerland and a very low interest level in the USA. We expect that such a scenario would show the aforesaid effects on profit or loss in the opposite direction.

Disclosures on currency risk

Within our risk strategy, only transaction risk and risk on intra-Group borrowings are subject to our hedging policy. Our hedging activities do not target translation risk relating to the translation of income and expenses into our Group currency. Currency risk therefore arises from borrowing, intra-Group dividend payments, acquisitions and operating activities.

The Klöckner & Co Group operates central foreign currency management. Domestic and foreign subsidiaries are required to identify currency risk and to hedge it through the Corporate Treasury Department or, within set limits, individually with banks. The hedges cover currency risk on recognized sales and purchases as well as on firm sale and purchase commitments. With regard to currency risk on firm sale commitments, the hedging strategy takes into account the compensatory effects of operating measures and market changes (natural hedges).

At the reporting date, the Klöckner & Co Group did not have any material exposure to currency risks arising from its operating activities or acquisitions.

In financing, currency risks arises on foreign currency loans provided by Klöckner & Co SE to subsidiaries. These loans are granted to finance Group companies as part of central Group financing and are fully hedged. As of the reporting date, there were pound sterling and US dollar loans of this kind totaling €128 million (2020: €183 million). The intra-Group loans, including ongoing interest payments, have been hedged with forward contracts and currency swaps.

Currency transactions at our subsidiaries in the Netherlands, Switzerland, the UK and Brazil amounted to €97 million at the year-end. These relate to forward exchange contracts and currency swaps entered into to hedge customer and supplier payments.

A sensitivity analysis is performed to show the effects of changes in exchange rates on foreign exchange gains and losses as well as on equity as of the reporting date. Currency risk is measured as cash flow risk (flow variable-based analysis) for the following year.

The fair value of our currency swaps was a negative €1.7 million as of the reporting date (2020: €0.9 million).

Disclosures on liquidity risk

Liquidity requirements are continuously budgeted by the Klöckner & Co Group and monitored by the Corporate Treasury Department to ensure appropriate levels of liquidity for the Group.

In total, the Group has credit facilities (including the convertible bond issue and leases) in the amount of approximately €1.3 billion (2020: €1.3 billion). Financial liabilities plus transaction costs came to €817 million (2020: €521 million). This corresponds to approximately 65% of the credit facilities (2020: 41%).

In April 2021, Klöckner & Co extended the majority – €278 million – of its €300 million syndicated loan through to May 2024. The syndicated loan was additionally extended ahead of term to January 2025 in an amend-and-extend process in December 2021. The facility amount was reduced in this transaction from €300 million to €250 million, the moderate adjustment to the facility amount being made with a view to a reduction in expected future funding needs. In July 2021, the bilateral credit lines in Switzerland were likewise extended ahead of term to March 2025. The credit lines were increased in size from CHF130 million to CHF160 million. The European ABS program was most recently extended in October 2020 to November 2023. The size of the program is €220 million. The USA country organization's USD 330 million ABL facility was most recently extended in November 2020 to March 2024.

The COVID-19 pandemic has had no impact on liquidity risk to date.

December 31, 2021		Cash outflows			
(€ thousand)		Less than one year	1– 5 years	More than 5 years	Total
Bonds	Nominal values	-	147,800	-	147,800
	Interest	2,956	2,956	-	5,912
	Total	**2,956**	**150,756**	**-**	**153,712**
Bank loans, ABL	Nominal values	-	239,714	-	239,714
Bank loans, Other	Nominal values	12,801	72,522	7,400	92,723
ABL	Interest	6,536	20,081	-	26,617
Other	Interest	2,588	5,744	740	9,072
	Total	**21,925**	**338,061**	**8,140**	**368,126**
ABS	Nominal values	189,153	-	-	189,153
	Interest	8,198	-	-	8,198
	Total	**197,351**	**-**	**-**	**197,351**
Lease liabilities	Nominal values	33,500	85,052	37,348	155,900
	Interest	4,504	11,807	10,798	27,109
	Total	**38,004**	**96,859**	**48,146**	**183,009**
Total financial liabilities		**260,236**	**585,676**	**56,286**	**902,198**
Cash outflows from derivative financial instruments designated in interest hedging relationships		**-**	**-**	**-**	**-**

December 31, 2020		Cash outflows			
(€ thousand)		Less than one year	1– 5 years	More than 5 years	**Total**
Bonds	Nominal values	147,800	-	-	147,800
	Interest	2,956	-	-	2,956
	Total	**150,756**	**-**	**-**	**150,756**
Bank loans	Nominal values	6,732	71,445	8,200	86,377
	Interest	5,774	11,197	970	17,941
	Total	**12,506**	**82,642**	**9,170**	**104,318**
ABS	Nominal values	-	111,695	-	111,695
	Interest	1,625	3,141	-	4,766
	Total	**1,625**	**114,836**	**-**	**116,461**
Lease liabilities	Nominal values	33,927	94,007	51,582	179,516
	Interest	4,166	10,405	8,726	23,297
	Total	38,093	104,412	60,308	202,813
Total financial liabilities		**202,980**	**301,890**	**69,478**	**574,348**
Cash outflows from derivative financial instruments designated in interest hedging relationships		**-**	**-**	**-**	**-**

The table includes all instruments for which contractual payments are agreed as of the reporting date; budgeted payments for new liabilities to be assumed in the future are not included. Variable interest on financial instruments is determined on the basis of the forward yield curve immediately before the reporting date. For drawings on the revolving credit facility, it was assumed that the level of drawings as of the reporting date will be maintained for the remaining term of the facility.

Net gains or losses by category

Net gains or losses for the loans and receivables measurement category are as follows:

(€ thousand)	**December 31, 2021**	December 31, 2020
Exchange rate differences	– 2,053	150
Valuation allowance	– 1,495	– 2,647
Subtotal	**– 3,548**	**– 2,497**
Net income credit insurance	– 2,022	– 1,206
Net result	**– 5,570**	**– 3,703**

There was a net loss from valuation allowances of €0 thousand (2020: €490 thousand) in the category comprising equity instruments for which changes in fair value remain in other comprehensive income (OCI).

The net gain or loss in the other financial liabilities category relates to currency translation. In the fiscal year, there was a net gain of €237 thousand (2020: net loss of €50 thousand).

Financial assets measured at fair value total €111 thousand (2020: €3,235 thousand). The net effect on earnings (other effects recognized in profit or loss) is €– 2,321 thousand (2020: €1,613 thousand).

There are €1,705 thousand (2020: €2,470 thousand) in financial liabilities measured at fair value and €1,686,301 thousand (2020: €1,018,545 thousand) in financial liabilities measured at amortized cost. This resulted in negative net income effects of €1,146 thousand (2020: positive effects of €2,151 thousand) (other effects recognized in profit or loss).

(32) Litigation, contingent liabilities and commitments

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

The Klöckner & Co Group is not involved in any litigation or arbitration proceedings that could have a material impact on the Group's financial situation. Notwithstanding extensive compliance measures, however, isolated compliance violations and legacy cases cannot be ruled out.

There are also guarantees that are given on divestments and property disposals. Such guarantees cover customary representations and warranties as well as environmental and tax contingencies.

Other commitments arise from capital expenditure purchase obligations; these amounted as of December 31, 2021 to €14.2 million (2020: €22.3 million)

In addition, there are contingent liabilities for pension obligations in the amount of €4.9 million as of December 31, 2021 for which there is no recourse and whose future probability of occurrence the Management Board judged as unlikely as of the reporting data.

(33) Related party transactions

Business relations with related parties do not differ from business relationships with other parties.

The principles of the compensation system for the Management Board and the Supervisory Board are set out in detail with disclosures for individual members in the remuneration report, which is an integral part of the Management Report. The table below shows total compensation of members of the Management Board of Klöckner & Co SE – differing from the disclosures of compensation granted and allocated contained in the remuneration report – pursuant to the stipulations of German commercial law:

(€ thousand)	2021	2020
Fixed components	2,315	2,180
Bonuses	6,168	3,745
Other remunerations	516	252
Total pursuant to Section 314 Nr. 6a of the German Commercial Code (HGB)	**8,999**	**6,177**

The following table illustrates the remuneration in accordance with IAS 24 (Related Party Disclosure) for the Management Board and the Supervisory Board:

(€ thousand)	2021	2020
Short-term benefits (IAS 24.17 a)		
-Management Board	8,999	6,177
-Supervisory Board	469	473
Termination benefits (IAS 24.17 d)	1,849	-
Change in fair values of share-based payments (IAS 24.17 e)	-	170
Service cost for pension obligations (IAS 24.17 e)	1,459	1,296
Total remunerations IFRS	**12,776**	**8,116**

Pursuant to Section 314 No. 6 b) of the German Commercial Code (HGB), total remuneration paid to former members of the Management Board was €2,398 thousand in the reporting year (2020: €222 thousand). This includes a severance payment of €1,849 thousand on termination of a Management Board member's service on the Management Board. In addition, there are pension provisions in the amount of €27,336 thousand (2020: €9,030 thousand) for former members of the Management Board, including a member who left in the reporting year.

Transactions with members of the Management Board are restricted in the reporting period to transactions in their capacity as members of the Management Board as set out above.

A list of the members of the Management Board is provided on page 10 and a list of the members of the Supervisory Board is provided on page 20 of this Annual Report.

In fiscal year 2020, Klöckner & Co SE was, for the first time, a dependent company of SWOCTEM GmbH, Haiger, within the meaning of Section 312 of the German Stock Corporation Act. The majority shareholder of SWOCTEM GmbH is Prof. Dr. Friedhelm Loh, who is to be regarded as a controlling party of Klöckner & Co. SE due to his shareholding in SWOCTEM. Pursuant to Section 312 (1) of the German Stock Corporation Act, the Management Board of Klöckner & Co SE has therefore prepared a report on relations with affiliated companies. Please see the concluding statement to the report in section 4.1 of the combined management report for fiscal year 2021.

SWOCTEM GmbH and its affiliated companies are therefore also considered to be related companies within the meaning of IAS 24. In the reporting year, the Group supplied this group of companies with goods to the value of €3,838 thousand (2020: €3,092 thousand) and purchased good to the value of €252 thousand (2020: none) and services to the value of €139 thousand (2020: €6 thousand). All transactions took place at arm's length. There were receivables of €81 thousand (2020: €115 thousand) and liabilities of €5 thousand (2020: none) as of the reporting date.

(34) Notes to the consolidated statement of cash flows

The consolidated statement of cash flows is presented in accordance with IAS 7 (Statement of Cash Flows). It is of central importance in assessing the cash flows of the Klöckner & Co Group.

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

Cash and cash equivalents (including €7 million short-term deposits) came to €58 million at the year-end 2021 (2020: €173 million).

Cash flow from operating activities
Cash flow from operating activities was €– 306 million in the fiscal year (2020: €161 million). The main drivers of cash flow from operating activities are operating income (EBITDA) and changes in net working capital. The additional release of funds in net working capital net of exchange rate effects and changes in the scope of consolidation were as follows:

	Variance	
(€ thousand)	2021/2020	2020/2019
Inventories	802,219	– 155,599
Trade receivables	292,545	– 40,179
Contract assets	14,339	–2,562
Commissions, discounts and rebate receivables	10,068	– 19,098
Trade payables	–333,391	102,245
Contract liabilities	–3,260	–710
Advance payments received	61	–880
Net working capital	**782,581**	**– 116,783**

Cash flow from investing activities
Cash outflows of €93 million from capital expenditure on property, plant and equipment, intangible assets and financial assets were offset by a total of €33 million in cash inflows from disposal of property, plant and equipment and financial assets. The net outcome was a cash outflow of €60 million (2020: €62 million).

Cash flow from financing activities
Cash flow from financing activities was €249 million (2020: negative cashflow of €104 million) and includes a €2 million cash outflow for dividend payments to non-controlling shareholders of Klöckner & Co SE and lease liability repayments according to IFRS 16 of €47 million.

The Klöckner & Co Group's business activities constantly generate short-term cash inflows. These are generally used within one month to repay working capital facilities.

Financial liabilities changed as follows:

(€ thousand)	Bonds	Liabilities to bank	Liabilities under ABS program	Liabilities from leases	**Total**
Balance as of January 1, 2020	**141,303**	**39,188**	**239,297**	**204,915**	**624,703**
Changes from financing cash flows					
Borrowings	1	59,626	-	-	59,627
Repayment of financial liabilities	-	– 11,081	– 124,058	– 45,668	– 180,807
Changes from financing cash flows	**1**	**48,545**	**– 124,058**	**– 45,668**	**– 121,180**
The effect of changes in foreign exchange rates	-	– 3,758	– 3,943	– 6,699	– 14,400
Other changes liability-related					
Changes in bank overdraft	-	– 101	-	-	– 101
New leases				31,156	31,156
Early terminated leases				– 4,188	– 4,188
Interest expense	7,519	10,739	5,342	4,625	28,225
Interest paid	– 2,956	– 10,637	– 5,342	– 4,625	– 23,560
Total liability-related other changes	**4,563**	**1**	**-**	**26,968**	**31,532**
Balance as of December 31, 2020	**145,867**	**83,976**	**111,296**	**179,516**	**520,655**
Balance as of January 1, 2021	**145,867**	**83,976**	**111,296**	**179,516**	**520,655**
Changes from financing cash flows					
Borrowings	1	257,762	75,768	-	333,531
Repayment of financial liabilities	– 252	– 24,546	-	– 47,190	– 71,988
Changes from financing cash flows	**– 251**	**233,216**	**75,768**	**– 47,190**	**261,543**
The effect of changes in foreign exchange rates	-	13,698	1,867	7,214	22,779
Other changes liability-related					
Changes in bank overdraft	-	– 23	-	-	– 23
New leases	-	-	-	22,065	22,065
Early terminated leases				– 5,705	– 5,705
Interest income	– 7,799	-	-	-	– 7,799
Interest expense	7,189	11,469	1,943	3,048	23,649
Interest paid	– 2,956	– 12,122	– 1,943	– 3,048	– 20,069
Total liability-related other changes	**– 3,566**	**– 676**	**-**	**16,360**	**12,118**
Balance as of December 31, 2021	**142,050**	**330,214**	**188,931**	**155,900**	**817,095**

(35) Segment reporting

Reporting of operating segments in accordance with IFRS 8 is based on the internal organization and reporting structure. The Klöckner & Co Group is organized by regions. The reporting structure covers all companies domiciled in these regions. Central functions not assigned to a segment and consolidation adjustments are reported separately.

Under the new management structure, the reporting system and thus segment reporting was revised as of December 31, 2021, so that the activities of the previous Kloeckner Metals Services Europe and Kloeckner Metals Distribution Europe segments, with the exception of the activities in the United Kingdom, were combined in the new Kloeckner Metals EU segment. The previous Kloeckner Metals Switzerland segment was supplemented with the United Kingdom activities and is now managed as the Kloeckner Metals Non-EU segment. The Kloeckner Metals US segment remains as it was in the prior year. The prior-year figures were adjusted correspondingly.

For segment reporting purposes in the past, we combined the operating segments of the European distribution companies (Germany (excluding Becker Stahl-Service), Austria, France, Netherlands, Belgium and the United Kingdom) in the Kloeckner Distribution Europe segment. These are comparable in terms of long-term earnings performance (EBITDA margin). The disclosures comprise restatements relative to the consolidated financial statements as of December 31, 2020 within the meaning of IAS 8.41 et seq.

The segments use the same accounting policies as described in Note 5 (Significant accounting policies), except in the case of intra-Group transactions (especially profit distributions and impairments on consolidated affiliated companies), which are eliminated within the individual segments.

(€ thousand)	Kloeckner Metals US		Kloeckner Metals EU		Kloeckner Metals Non-EU		Total Segments	
	2021	2020	2021	2020	2021	2020	2021	2020
Shipments (Tto)	2,398,574	2,339,226	1,727,783	1,802,782	754,177	730,792	4,880,534	4,872,800
External sales	3,511,475	2,076,136	2,583,659	1,951,579	1,345,379	1,102,270	7,440,513	5,129,985
Sales from other segments	-	-	177	285	132	62	309	347
Gross profit	847,192	373,786	652,368	353,030	392,966	320,280	1,892,526	1,047,096
Gross profit margin (%)	24.1	18.0	25.2	18.1	29.2	29.1	25.4	20.4
Segment result (EBITDA)	458,107	44,632	319,709	– 25,006	108,780	59,539	886,596	79,165
EBITDA before material special effects	455,612	49,643	293,788	28,113	106,780	59,969	856,180	137,725
Income from participation	-	-	255	-	-	-	255	-
Earnings before interest and taxes (EBIT)	409,579	– 13,164	289,233	– 64,838	72,605	17,886	771,417	– 60,116
Scheduled depreciation on intangible assets and property, plant and equipment	– 48,528	– 50,941	– 32,227	– 34,100	– 35,824	– 40,217	– 116,579	– 125,258
Impairment losses on intangible assets and property, plant and equipment	-	– 6,856	– 797	– 5,732	– 364	– 1,436	– 1,161	– 14,024
Reversal of impairments on intangible assets and property, plant and equipment	-	-	2,549	-	13	-	2,562	-
Income taxes	– 97,994	12,515	– 14,142	311	– 7,811	– 3,514	– 119,947	9,312
Other non-cash income/expenses	-	-	95	371	– 687	42	– 592	413
Capital expenditure for intangible assets, property, plant and equipment and financial investments	28,290	18,325	17,418	16,829	38,672	39,236	84,380	74,390
Cash flow from operating activities	– 63,637	84,620	– 36,021	32,375	– 46,170	68,429	– 145,828	185,424

(€ thousand)	Kloeckner Metals US		Kloeckner Metals EU		Kloeckner Metals Non-EU		Total Segments	
	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020
Net working capital	831,474	337,937	645,396	405,409	340,779	238,859	1,817,649	982,205
Employees at year-end (headcount)	2,198	2,120	2,517	2,721	2,178	2,201	6,893	7,042

	Holding and other Group companies		Consolidation		Total	
	2021	2020	2021	2020	2021	2020
	-	-	-	-	4,880,534	4,872,800
	350	121	-	-	7,440,863	5,130,106
	-	-	– 309	– 347	-	-
	350	133	-	-	1,892,876	1,047,229
	-	-	-	-	25.4	20.4
	– 7,687	– 26,727	-	-	878,909	52,438
	– 7,687	– 26,727	-	-	848,493	110,998
	10,262	300	-	-	10,517	300
	– 16,918	– 33,226	-	-	754,499	-93,342
	– 7,623	– 6,499	-	-	– 124,202	– 131,757
	– 1,609	-	-	-	– 2,770	– 14,024
	-	-	-	-	2,562	-
	1,388	150	-	-	– 118,559	9,462
	– 159	– 604	-	-	– 751	– 191
	8,992	7,000	-	-	93,372	81,390
	– 159,980	– 24,317	41	– 124	– 305,767	160,983

	Holding and other Group companies		Consolidation		Total	
	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020
	– 5,425	– 15,254	-	-	1,812,224	966,951
	260	232	-	-	7,153	7,274

Earnings before interest and taxes (EBIT) can be reconciled to consolidated income before taxes as follows:

(€ thousand)	2021	2020
Earnings before interest and taxes (EBIT)	754,499	– 93,643
Income from investments	10,517	300
Financial result	– 17,120	– 30,483
Income before taxes	**747,896**	**– 123,825**

For the breakdown of sales by customer location and type of transaction, please see Note 7 (Sales).

EBITDA, as a key performance indicator, is defined as earnings before interest, taxes, depreciation, amortization, impairments and reversals of impairments of intangible assets and property, plant and equipment. The material special effects adjusted out of EBITDA are shown in Note 6 (Special items affecting the results).

Net working capital comprises inventories and trade receivables, including contract assets and supplier bonus receivables, less trade payables, including contract liabilities and advance payments received.

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

Non-current assets by country
Intangible assets, property, plant and equipment and non-current non-financial assets are broken down by country as follows:

(€ thousand)	2021	2020
USA	258,242	248,356
Switzerland	304,254	296,039
Germany	165,907	168,641
France	51,999	64,363
United Kingdom	69,228	56,406
The Netherlands	17,883	19,617
Other countries	17,851	18,881
Total	**885,364**	**872,303**

(36) Subsequent events

In December 2021, we entered into an agreement for the sale of a site in Switzerland that did not become effective until the first quarter of 2022. The transaction generated a book gain of €50 million in fiscal year 2022. In addition, a further site in France was sold in December 2021 for which the book gain of €4 million was not recognized to be in profit or loss until January 2022. PC-Tech SA, domiciled in Penthalaz VD, Switzerland, was acquired by contractual agreement dated November 5, 2021 and effective March 1, 2022. PC-Tech SA has 18 employees and provides prefabrication for building services such as drinking water, wastewater, heating and ventilation.

(37) Fees and services of the auditor of the consolidated financial statements

The auditor of the individual and consolidated financial statements of Klöckner & Co SE is KPMG AG, Wirtschaftsprüfungsgesellschaft, Berlin. The audit opinion is signed by Wirtschaftsprüfer Christoph Velder (from fiscal year 2018) and Wirtschaftsprüfer Ulrich Keisers (from fiscal year 2016).

The following fees were incurred for services performed by the auditor KPMG AG, Wirtschaftsprüfungsgesellschaft, Berlin, in the fiscal year:

(€ thousand)	**2021**	2020
Audit of financial statements	1,124	763
Other assurance services	91	148
Tax advisory services	8	4
Other services	-	4
	1,223	**919**

The fees for the audit of financial statements mainly relate to the audit of the consolidated financial statements in accordance with IFRS and the audits performed by the auditors of the separate financial statements of the consolidated companies and the review of the quarterly and half-year financial reports in 2021.

The fees for other assurance services relate to other statutory or contractual audits.

The fees for tax consulting services relate to individual case consulting and ongoing consulting in connection with tax returns and advice on other national and international tax issues.

(38) Declaration of Conformity with the German Corporate Governance Code in accordance with Section 161 of the German Stock Corporations Act (AktG)

The Management Board and the Supervisory Board submitted the Declaration of Conformity in accordance with Section 161 AktG on December 13, 2021 and made it permanently publicly available to shareholders on the Klöckner & Co SE website.

Duisburg, March 1, 2022

Klöckner & Co SE
MANAGEMENT BOARD

Guido Kerkhoff
CHAIRMAN OF THE MANAGEMENT BOARD
(CEO)

Dr. Oliver Falk
MEMBER OF THE MANAGEMENT BOARD
(CFO)

John Ganem
MEMBER OF THE MANAGEMENT BOARD
(CEO AMERICAS)

Bernhard Weiß
MEMBER OF THE MANAGEMENT BOARD
(CEO EUROPE)

Independent Auditor's Report

To Klöckner & Co SE, Duisburg, Germany

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Opinions
We have audited the consolidated financial statements of Klöckner & Co SE, Duisburg, Germany, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statement of income, the statement of comprehensive income, consolidated statement of cash flows and the summary of changes in consolidated equity for the fiscal year from January 1 to December 31, 2021, and notes to the consolidated financial statements (hereinafter: "Notes to the Consolidated Financial Statements"), including a summary of significant accounting policies. In addition, we have audited the Management Report on the Company and the Group (hereinafter: "Group management report") of Klöckner & Co SE including the remuneration report contained in section 8 of the Group management report, including the related disclosures,for the fiscal year from January 1 to December 31, 2021.

In accordance with German legal requirements, we have not audited the content of the components of the Group management report referred to in the "Other information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

– the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December, 2021, and of its financial performance for the fiscal year from 1 January to 31 December, 2021, and

– the accompanying Group management report as a whole provides an appropriate view of the Group's position. In all material respects, this Group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the Group management report does not cover the content of the corporate governance statement mentioned above.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the Group management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the Group management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). *We performed the audit of the consolidated financial statements in supplementary compliance with the International Standards on Auditing (ISAs).* Our responsibilities under *those requirements, principles and standards* are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the Group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the Group management report.

Key audit matters for audit of consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from January 1 to December 31, 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters.

Impairment test of individual non-current assets or a group of non-current assets (without goodwill)

For the accounting policies applied, please refer to section (5) in the notes to the consolidated financial statements of Klöckner & Co SE. Further disclosures on impairment testing can be found in section (16) of the notes to the consolidated financial statements.

FINANCIAL STATEMENT RISK

Klöckner recognizes intangible assets of EUR 97.4 million in the consolidated statement of financial position as at 31 December, 2021; thereof EUR 65.4 million for intangible assets (without goodwill) and EUR 760.4 million for property, plant and equipment. At 22% of total assets, this represents a significant impact on the assets of the Company.

As at 31 December, 2021, impairment losses totaling EUR 2.8 million were recognized on intangible assets and property, plant and equipment and write-ups on property, plant and equipment totaling EUR 2.6 million.

Impairment testing of non-current assets is conducted at the level of the cash-generating units. Any identified impairment loss has to be allocated to the individual assets. In this regard, the carrying amount of an individual asset may not be impaired below its fair value less cost of disposal (minimum carrying amount). Klöckner made use of appraisals by external experts as well as external sources for ground values to derive the minimum carrying amounts needed for allocating any identified impairment loss on the individual assets.

The impairment testing of individual cash-generating units, the allocation of an identified impairment loss to the individual assets as well as the derivation of the minimum carrying amount are complex and are based on a number of discretionary assumptions.

In particular, the estimates on the timing and amount of future expected cash inflows and outflows relevant for measurement as well as the discount rates used for the derivation of the recoverable amount of cash-generating units are subject to discretion.

In determining the minimum carrying amount of the individual assets, estimates must be made for the significant measurement parameters, such as indexation, depreciation, total useful life, deductions for technical obsolescence, costs to sell and obsolescence of property, plant and equipment, market leasing payments as well as the location, usability and condition of land and buildings.

The financial statement risk is that an impairment need may not have been identified, that an identified impairment need was not allocated to the individual assets, or not to the extent necessary and thus the Group's assets are overstated. There is also the risk that the related disclosures in the notes are not appropriate.

Our audit approach
By involving our valuation specialists, we assessed, among others, the appropriateness of the significant assumptions and valuation parameters, the calculation methods for the recoverable amount of the cash-generating unit as well as the minimum carrying amount of the individual assets of the Company. Our audit procedures included, among others, an audit of whether the cash inflows and outflows used to derive the value in use of the cash-generating units were appropriate. To this end, we discussed the expected cash flows and the assumed long-term growth rates with the persons responsible for planning. We also performed the reconciliation with the budget prepared by the legal representatives and approved by the Supervisory Board (first planning year) and the two further planning years noted. In addition, we assessed the corporate planning on the basis of market data and publicly available sector and analyst reports. We also assessed the appropriateness of the planning values included in the corporate planning for the cash-generating units and the underlying assumptions. We compared the assumptions and data underlying the discount rate, in particular the risk-free interest rate, the market risk premium and the beta factor, with our own assumptions and publicly available data.

Where a potential impairment loss was identified for a cash-generating unit, Klöckner & Co engaged external experts to derive the minimum carrying amounts for the individual assets. We verified the expertise and objectivity of the external experts and conducted a substantive audit of the external experts' determination of the minimum carrying amounts for the individual assets. Thereby, we first ensured that all assets of the cash-generating units to be audited were fully included in the valuation. In the following step, we assessed whether the valuation methods used to derive the minimum carrying amounts were properly applied. In this context, we also verified whether the above-mentioned significant measurement assumptions and parameters were properly and reasonably applied.

Finally, we verified the accuracy of calculations used in the valuation models to derive the recoverable amount of the cash-generating units or the individual assets and the minimum carrying amount of the individual assets. Furthermore, we verified the accuracy of calculations of the valuation models used to determine the lower value limit of the individual assets on the basis of assets selected partly on a risk-oriented basis and partly at random.

Moreover, we assessed whether the resulting impairment loss was accurately recognized in the financial statements.

In addtion, we evaluated if the information provided in the notes to the consolidated financial statements on impairment testing are appropriate.

OUR OBSERVATIONS
The underlying calculation method used for impairment testing and for the minimum carrying amount is appropriate and in line with the accounting policies to be applied. The assumptions and data used for measurement are appropriate and balanced overall.

The required disclosures in the notes are appropriate.

OTHER INFORMATION
Management and the Supervisory Board are responsible for the other information. The other information comprises the following parts of the Group Management Report, which have not been audited:

- the combined management declaration of the Company and the Group contained in section 7 of the Group management report,
- disclosures in the Group management report that are not normally part of the management report and are marked as unaudited

The other information additionally comprises:

- the separate non-financial Group report published together with the Group management report, and
- the remaining parts of the annual report

The other information does not include the consolidated financial statements, the audited disclosures in the Group management report and our related auditor's report.

Our opinions on the consolidated financial statements and on the Group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the Group management report disclosures or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the management board and the supervisory board for the consolidated financial statements and the Group management report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the Group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a Group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the Group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the Group management report.

Management and the Supervisory Board are further responsible for the preparation of the remuneration report, including the related disclosures, which is included in a separate section of the Group management report and complies with the requirements of Section 162 AktG. They are also responsible for such internal control as they determine to be necessary to enable the preparation of a remuneration report, including the related disclosures, that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the consolidated financial statements and of the Group management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the Group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the Group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) *and supplementary compliance with the ISAs* will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this Group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the Group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control system relevant to the audit of the consolidated financial statements and of arrangements and measures system relevant to the audit of the Group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the Group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the net assets and financial position as well as the results of operations of the Group in accordance with IFRS as adopted by the EU and the supplementary requirements of German commercial law pursuant to Section 315e (1) HGB
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the Group management report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the Group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

– Perform audit procedures on the prospective information presented by management in the Group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Report on assurance in accordance with Section 317 (3a) HGB on the electronic reproduction of the consolidated financial statements and the Group management report prepared for publication purposes

In accordance with Section 317 (3a) of the German Commercial Code (HGB), we performed a reasonable assurance audit to determine whether the data provided in the file "kloecknercoseconsol-2021-12-31-de.xhtml" (SHA256 hash value: 87b17e4b054ae1390468f2eed7cd642932a1f33466beea94319840f3e38978a7) and prepared for the purpose of publication of the consolidated financial statements and the Group management report (hereinafter also referred to as "ESEF documents") comply with the requirements of section 328 (1) HGB regarding the electronic report format ("ESEF format") in all material respects. In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the consolidated financial statements and the Group management report into the ESEF format and therefore relates neither to the information contained in this reproduction nor any other information contained in the above-mentioned electronic file.

In our opinion, the reproductions of the consolidated financial statements and the Group management report provided in the above-mentioned file and prepared for disclosure purposes comply in all material respects with the electronic reporting format requirements of Section 328 (1) HGB. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the above-mentioned file beyond this reasonable assurance opinion and our audit opinion on the accompanying annual financial statements and the accompanying management report for the fiscal year from January 1, *to December 31, 2021* contained in the “Report on the Audit of the Consolidated Financial Statements and of the Group Management Report” above.

We conducted our assurance work of the reproduction of the consolidated financial statements and the Group management report provided in the above-mentioned electronic file in accordance with Section 317 (3a) HGB and the Exposure Draft of the IDW Assurance Standard: Assurance in accordance with Section 317 (3a) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (IDW PS 410 (10.2021)) and the International Standard on Assurance Engagements 3000 (Revised)*]*. Accordingly, our responsibilities are further described below. Our audit firm has applied the IDW Standard on Quality Management: Requirements for Quality Management in Audit Firms (IDW QS 1).

The Company’s management is responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the Group management report in accordance with Section 328 (1) sentence 4 item 1 HGB and for marking up the consolidated financial statements in accordance with Section 328 (1) sentence 4 item 2 HGB.

In addition, the Company’s management is responsible for the internal controls they consider necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB for the electronic reporting format.

The Supervisory Board is responsible for overseeing the preparation process of the ESEF documents as part of the financial reporting process.

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB. We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

– Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
– Obtain an understanding of internal control relevant to the assessment of the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
– Evaluate the technical validity of the ESEF documents, i.e. whether the electronic file providing the ESEF documents meets the requirements of Commission Delegated Regulation (EU) 2019/815 on the technical specification for this electronic file.
– Evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited annual financial statements and the audited management report.
– Evaluate whether marking up of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with Articles 4 and 6 of Delegated Regulation (EU) 2019/815 in the version applicable on the reporting date enables an appropriate and full machine-readable XBRL copy of the XHTML reproduction.

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION
We were elected as Group auditor by the annual general meeting on May 12, 2021. We were engaged by the Supervisory Board on January 17, 2022. We have been the Group auditor of Klöckner & Co SE without interruption since fiscal year 2006.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

Other matters - use of the auditor's report

Our auditor's report should always be read in conjunction with the audited consolidated financial statements and the audited Group management report as well as the audited ESEF documents. The consolidated financial statements and the Group management report converted to the ESEF format - including the versions to be published in the Federal Gazette - are merely electronic reproductions of the audited consolidated financial statements and the audited Group management report and do not replace them. In particular, the ESEF opinion and our audit opinion contained therein can only be used in conjunction with the audited ESEF documents provided in electronic form.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Christoph Velder.

Düsseldorf, March 1, 2022

KPMG AG
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

signed Velder
WIRTSCHAFTSPRÜFER

signed Keisers
WIRTSCHAFTSPRÜFER

Declaration of the Management Board

Statement by the Management Board on the consolidated financial statements and the Group management report

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

Duisburg, March 1, 2022

Klöckner & Co SE

MANAGEMENT BOARD

Guido Kerkhoff

CHAIRMAN OF THE MANAGEMENT BOARD

(CEO)

Dr. Oliver Falk

MEMBER OF THE MANAGEMENT BOARD

(CFO)

John Ganem

MEMBER OF THE MANAGEMENT BOARD

(CEO AMERICAS)

Bernhard Weiß

MEMBER OF THE MANAGEMENT BOARD

(CEO EUROPE)

INDIVIDUAL FINANCIAL STATEMENTS

Individual financial statements

Statement of income

for the 12-month period ending December 31, 2021

(€ thousand)	2021	2020
Sales	42,825	14,023
Other operating income	33,972	58,837
Cost of purchased services	– 11,039	– 9,273
Personnel expenses	– 33,040	– 21,582
Depreciation of intangible assets and property, plant and equipment	– 586	– 687
Other operating expenses	– 16,790	– 13,183
Income from participations	75,801	24,609
Income from profit transfer agreements	158,204	15,798
Income from long-term loans	4,243	10,465
Other interest and similar income	5,608	4,663
Impairment of investments	– 34,733	– 41,048
Expenses from loss transfer agreements	-	– 34,605
Interest and similar expenses	– 12,141	– 14,554
Result before taxes	**212,325**	**– 6,537**
Income taxes	– 24,169	206
Net loss	**188,156**	**– 6,331**
Withdrawals from capital reserves	-	6,331
Unappropriated profits	**188,156**	**-**

Balance sheet

as of December 31, 2021

ASSETS

(€ thousand)	December 31, 2021	December 31, 2020
Intangible assets	264	408
Property, plant and equipment	1,437	1,831
Non-current investments	1,084,632	1,177,506
Fixed assets	**1,086,333**	**1,179,745**
Trade receivables	-	2
Receivables from affiliated companies	455,206	126,052
Other assets	2,344	2,896
Cash and cash equivalents	2,928	87,530
Current assets	**460,478**	**216,480**
Prepaid expenses	2,386	4,538
Plan asset	20,792	-
Total assets	**1,569,989**	**1,400,763**

EQUITY AND LIABILITIES

(€ thousand)	December 31, 2021	December 31, 2020
Equity		
Subscribed capital	249,375	249,375
Capital reserves	585,776	585,776
Other revenue reserves	257,506	257,506
Unappropriated profits	188,156	-
Equity	**1,280,813**	**1,092,657**
Provisions for pensions and similar obligations after offsetting with plan assets	-	95,052
Provisions for taxes	430	186
Other provisions	17,833	12,306
Bonds	147,800	147,800
Liabilities to banks	36,146	245
Trade payables	1,046	2,175
Liabilities to affiliated companies	76,870	49,904
Other liabilities	9,039	417
Deferred income	12	21
Total equity and liabilities	**1,569,989**	**1,400,763**

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

as of December 31, 2021 (annex to the Notes)

	Intangible assets	Property, plant and equipment		Non-current investments		Fixed assets
(€ thousand)	Software	Buildings	Other equipment, operating and office equipment	Investments in affiliated companies	Loans to affiliated companies	Total
Cost as of December 31, 2020	1,581	1,791	1,753	1,303,794	163,160	1,472,079
Accumulated amortization and depreciation	– 1,173	– 671	– 1,042	– 289,448	-	– 292,334
Book value as of Dec. 31, 2020	**408**	**1,120**	**711**	**1,014,346**	**163,160**	**1,179,745**
Additions	8	-	40	73,310	9,059	82,417
Attribution	-	-	-	31,709	-	31,709
Disposals	-	-	-	-	– 172,219	– 172,219
Current year amortization and depreciation	– 152	– 249	– 185	– 34,733	-	– 35,319
Book value as of Dec. 31, 2021	**264**	**871**	**566**	**1,084,632**	**-**	**1,086,333**
Costs as of December 31, 2021	1,589	1,792	1,793	1,377,104	-	1,382,278
Accumulated amortization and depreciation	– 1,325	– 921	– 1,227	– 292,472	-	– 295,945

Notes to the financial statements

for the 12-month period ending December 31, 2021

General information

Klöckner & Co SE is the parent company of the Klöckner & Co Group and is domiciled in Duisburg. It is entered in the commercial register of Duisburg Local Court under HRB 20486. The Klöckner & Co Group is one of the largest producer-independent steel and metal distributors and one of the leading steel service center companies worldwide.

Klöckner & Co SE is in charge of operating management of the Klöckner & Co Group. It directly holds the ownership interests in most management companies heading the Group's national and international country organizations, as well as in individual country operating companies themselves.

Since the initial public offering on June 28, 2006, Klöckner & Co SE's shares have been listed on the Frankfurt Stock Exchange's Regulated Market (Prime Standard).

The annual financial statements and the consolidated financial statements are published in the Federal Gazette.

Accounting policies

The financial statements for the fiscal year January 1 to December 31, 2021 are prepared in accordance with the stipulations applying for large corporations in the German Commercial Code (HGB) and in accordance with the German Stock Corporations Act (AktG).

Klöckner & Co SE prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The presentation of the financial statements is in accordance with Sections 266–277 HGB.

Assets
Acquired intangible assets and property, plant and equipment are normally carried at cost less accumulated amortization and depreciation recognized in accordance with commercial law. The option of recognizing self-generated intangible assets is not used. Moveable depreciable assets are depreciated on a straight-line basis. Minor assets are expensed in the year of purchase or production. If the attributable value of a depreciable asset is diminished as of the reporting date, a writedown for impairment is recognized. Other operating and office equipment is depreciated over between three and 13 years.

Financial assets are accounted for at cost of purchase and in case of other-than-temporary impairment at their lower attributable cost. For material investments in affiliated companies, attributable value is determined using the income approach. The cash flows used in the income approach are based on budgets for each affiliate for the next three years, extrapolated using long-term growth rate assumptions. They are discounted at a discount rate derived from the yield on a risk-equivalent alternative investment.

Receivables and other assets are normally measured at cost. Specific valuation allowances are established to account for identifiable risks. Foreign currency receivables are translated at the midpoint spot rate at the reporting date. Section 253 (1) sentence 1 and Section 252 (1) 4 HGB are not applied if the remaining maturity is less than one year.

Equity and liabilities

Provisions for pensions are measured using the projected unit credit method (analogous to IAS 19). In accordance with the requirements under the Accounting Law Modernization Act (BilMoG), the parameters for valuation were 2.7% (2020: 2.5%) for salary increases and 2.00% (2020: 1.75%) for pension increases. The biometric parameters are based on the Prof. Dr. Klaus Heubeck 2018 G tables (2020: Prof. Dr. Klaus Heubeck 2018 G tables). The obligation is discounted at the average market rate based on an assumed remaining maturity of 15 years as regularly published by the German Bundesbank. Ten years are assumed for calculation of the average discount rate. At the reporting date, this is 1.87% (2020: 2.31%). Ring-fenced assets that exclusively serve the purpose of meeting pension obligations are offset against the corresponding liability. To meet pension obligations, assets are held in trust under a contractual trust arrangement (CTA). The assets are measured at fair value. The fair value is based on the market values of the asset management companies at the reporting date. The plan assets are offset against the benefit obligation. Any net plan liability is accounted for in provisions. Any excess of plan assets over plan liabilities is presented in assets as a pension plan surplus.

Other provisions account for all identifiable obligations and emerging risks. They are recognized at their settlement amount estimated with the due care and diligence of a prudent businessman. Provisions with a remaining maturity of more than one year are discounted to the reporting date. The discount rate is the past seven-year average market interest rate for congruent maturities as published by the German Bundesbank.

Liabilities are normally stated at their settlement amount. Foreign currency liabilities with a remaining maturity of up to one year are normally translated at the midpoint spot rate at the reporting date. Foreign currency liabilities with longer maturities are translated at the invoice date exchange rate or, if higher, the midpoint spot rate at the reporting date.

Derivative financial instruments are accounted for at fair value, determined on the basis of banks' quoted prices or by quantitative finance methods using standard banking models. Where market prices exist, these correspond to the price a third party would pay for the rights or obligations arising from the financial instruments. The fair values are the market values of the derivative financial instruments, irrespective of any offsetting changes in the value of hedged items. Positive fair values are presented in other assets and negative fair values in other liabilities.

In accordance with Section 254 HGB, financial instruments that match the volume and timing of risks on a hedged item are accounted for in a unit with the hedged item. Under application of the net hedge presentation method, they are estimated according to the value on the date of issue. Changes in value in respect of the hedged risk are not recognized on the balance sheet or in the statement of income.

Statement of income
The income statement is prepared using the nature of expense method of analysis (Section 275 (2) HGB).

Expense from the unwinding of the discount on pension obligations is accounted for in net interest income.

Fixed assets

Changes in fixed assets in the reporting year are presented in the movement schedule.

Additions to intangible assets relate in their entirety to purchased software.

The decrease in financial assets mostly relates to the repayment of the USD 200,000 thousand (€172,219 thousand) loan to Kloeckner Metals Corporation, Wilmington, Delaware, United States of America.

A €52,774 thousand capital increase was carried out to strengthen the equity base of Kloeckner Metals UK Holdings Limited, Leeds, United Kingdom. Past impairment losses on the carrying amount of the investment in Kloeckner Metals France Holding S.A.S., Aubervilliers, France were reversed in the amount of €31.709 thousand.

A €9,500 thousand capital increase was also carried out at XOM Materials GmbH, Berlin, Germany. An impairment loss was recognized for the entire carrying amount (€34,733 thousand) of the investment in this company.

In December 2021, Klöckner & Co SE acquired the shares in Kloeckner Metals Brasil Ltda., São Paulo, Brazil from Kloeckner Netherlands Holding B.V., Amsterdam, Netherlands for a purchase price of €11,037 thousand.

A listing of all equity investments is presented in the appendix.

Receivables and other assets

(€ thousand)	2021	2020
Trade receivables	-	2
Receivables from affiliated companies	455,206	126,052
Other assets	2,344	2,896
	457,550	**128,950**

Receivables from affiliated companies relate to European cash pooling, profit transfer agreements, financial services, clearing and short-term loans.

All receivables have a maturity of less than one year.

Other assets totaling €2,304 thousand (2020: €2,687 thousand) have a remaining maturity of more than one year and mainly relate to non-pledged pension liability insurance.

Prepaid expenses

In connection with the 2016 Convertible Bond, a discount of €18,434 thousand was initially recognized as prepaid expenses to be amortized to interest expense over the five-year minimum maturity period. The amount recognized as interest expense in fiscal year 2021 was €2,458 thousand (2020: €3,687 thousand). As of December 31, 2021, the discount was accounted for at €0 thousand (2020: €2,458 thousand).

Plan asset

Pension obligations in Germany were fully funded by establishing and paying €122 million into a contractual trust arrangement (CTA) in the reporting year. As the fair value of plan assets in the CTA and plan assets under pension liability insurance exceeded plan liabilities as of the reporting date, the excess is presented as a pension plan surplus of €20,792 thousand. In the prior year, pension obligations totaled €122,338 thousand and, after offsetting against plan assets under pension liability insurance, were presented at a net amount of €95,052 thousand as provisions for pensions and similar obligations.

PLANS ASSETS

(€ thousand)	2021
Settlement amount of obligations from pension commitments	129,190
Fair value of the security assets/reinsurance policy invested with the CTA	149,982
Excess of assets over pension obligations (excess of plan assets over pension liabilities)	**20,792**
Accrued pension and similar obligations	-
Acquisition costs of the security assets invested with the CTA	121,598
Acquisition cost of reinsurance	28,418

The amount resulting from the change in the discount rate for retirement benefit obligations that is not allowed to be distributed to shareholders under Section 253 (6) HGB is €8,963 thousand (2020: €11,340 thousand).

Expense from the unwinding of the discount on pension obligations in the amount of €2,737 thousand (2020: €3,219 thousand) is offset against returns on plan assets in the amount of €313 thousand (2020: €414 thousand).

Provisions for pensions and similar obligations

Pension obligations as of December 31, 2020 were €122,338 thousand). After offsetting against pension liability insurance at fair value, pension obligations as of December 31, 2020 were €95,052 thousand. The funding of pension obligations resulted in an excess of plan assets over plan liabilities in reporting year 2021. Please see the information under “Pension plan surplus”.

Equity

The Company’s share capital is €249,375,000, as in the prior year, and is divided into 99,750,000 shares. Each share notionally corresponds to €2.50 of the share capital.

By Annual General Meeting resolution of May 12, 2017, the Management Board is authorized to acquire, by or before May 11, 2022, treasury stock of up to 10% of the Company’s share capital in issue at the time of adoption of the resolution by the Annual General Meeting on May 12, 2017 or, if lower, the Company’s share capital in issue at the time of exercise of the authorization. The Management Board was additionally authorized to acquire treasury stock using derivatives (put options, call options or other forward contracts). The authorization may be utilized in whole or in part, on one or more occasions, by the Company, by Group companies or by third parties acting on the Company’s account or on the account of Group companies. The authorization may be used for any legally permissible purpose. Trading with treasury stock is prohibited. No use has been made of the authorization so far.

The amount resulting from the change in the discount rate for retirement benefit obligations that is not allowed to be distributed to shareholders under Section 253 (6) HGB is €8,963 thousand (2020: €11,340 thousand).

The Management Board and Supervisory Board propose the distribution from Klöckner & Co SE's unappropriated profits for fiscal year 2021 of an amount of €99,750 thousand to shareholders as dividend and the transfer of the remaining €88,406 thousand of the unappropriated profits to other revenue reserves. At 99,750,000 eligible no-par-value shares, the dividend proposal corresponds to a dividend of €1.00 per share

Other provisions

Other provisions consist of:

(€ thousand)	2021	2020
Personnel expenses	10,504	8,761
Outstanding invoices	3,808	2,902
Miscellaneous other provisions	3,521	643
	17,833	**12,306**

The increase in personnel-related provisions mainly relates to the increase in provisions for performance-based remuneration, partly offset by a decrease in provisions for the virtual stock options program in the reporting year.

The increase in miscellaneous other provisions relates to unused rental space.

Liabilities

	December 31, 2021			December 31, 2020		
(€ thousand)	up to 1 year	1–5 years	Total	up to 1 year	1–5 years	Total
Bonds	-	147,800	147,800	147,800	-	147,800
Liabilities to banks	217	35,927	36,146	245	-	245
Trade payables	1,046	-	1,046	2,175	-	2,175
Liabilities to group companies	76,870	-	76,870	49,904	-	49,904
Miscellaneous liabilities	9,039	-	9,039	417	-	417
Liabilities	**87,172**	**183,727**	**270,901**	**200,541**	**-**	**200,541**

A €148 million convertible bond issue was launched in September 2016. The issuer is Klöckner & Co Financial Services S.A., a wholly-owned Luxembourg subsidiary. The bonds are guaranteed by Klöckner & Co SE and are convertible into new or existing shares in Klöckner & Co SE.

The bond issue is split into 1,478 bonds with a total of 10,480 thousand conversion rights as of December 31, 2021. The coupon on the bonds was set at 2.00% p.a. and the conversion price at 27.5% over the issue date reference price, corresponding to an initial conversion price of €14.82. In accordance with the bond terms, the conversion price was adjusted to €13.33 following dividend payouts. The bond has a seven-year term. Under the bond terms, holders have an investor put option under which they can demand early redemption after five years at par value plus accrued interest. The issuer did not have an early call option during the first five years. It does have such an option since that time provided that, over certain stipulated periods, the market price of Klöckner & Co shares exceeds 130% of the conversion price. As holders of the convertible bond did not exercise their investor put option as of September 8, 2021, the bond was classified as a non-current financial liability maturing September 2023.

Liabilities to banks include €217 thousand in interest payable on the syndicated loan. The liabilities under the syndicated credit facility, which was undrawn as of December 31, 2021, are uncollateralized.

Other liabilities include:

(€ thousand)	2021	2020
Tax liabilities	8,575	377
Social security contributions	13	-
Miscellaneous other liabilities	451	40
Other liabilities	**9,039**	**417**

Derivative financial instruments

The nominal values and fair values of the derivative financial instruments as of December 31, 2021 are as follows:

(€ million)	Nominal values	Fair values
Forward exchange transactions	128	0

Klöckner & Co SE manages central financing for the Klöckner & Co Group. Klöckner & Co SE is exposed to currency risk arising from the financial instruments. This arises from foreign currency loans that are granted to finance Group companies as part of central Group financing and are fully hedged. Derivative financial instruments are entered into for this purpose.

Derivative financial instruments used to hedge cash flow risks and matching hedged items can be accounted for as a unit if a clear hedging relationship is demonstrated. Such a hedging relationship exists in the form of microhedges for six forward exchange contracts with a maximum maturity of three months. In these cases, the hedged items are recognized at the contractually agreed hedged rates and the derivative financial instruments are not recognized separately.

As a fundamental rule, Klöckner & Co SE only enters into derivative financial instruments that are in a hedging relationship with a hedged item. Changes in value and cash flows fully cancel each other out due to matching terms and parameters in the hedged item and the hedge.

The following methods are used to determine fair (market) value:

Currency hedges
The fair value of forward exchange contracts is calculated on the basis of the midpoint spot rate at the reporting date, taking into account forward premiums and discounts for the respective remaining maturity of the contract relative to the contracted forward rate. Counterparty risk is taken into account in discounting.

Commitments

Obligations fall due in the following year due to multiple-year tenancies and leases in the amount of €1,808 thousand (December 31, 2020: €1,791 thousand). The total amount of these obligations is €6,453 thousand (December 31, 2020: €8,244 thousand).

Sales

Sales consist of goods or services provided to subsidiaries and relate to the following:

(€ thousand)	2021	2020
Group services rendered/rights of use granted	34,060	6,211
Service fees ABS program	6,308	5,195
Rental income	1,530	1,545
Insurance	680	699
Other income	246	373
Sales	**42,824**	**14,023**

The increase in sales for 2021 relates to leased right-of-use assets.

Other operating income

Other operating income in the reporting year primarily includes €31,709 thousand in reversals of past impairment losses on the carrying amount of the investment in Kloeckner Metals France S.A.S., Aubervilliers, France.

Other operating income includes income from currency translation of €17 thousand (2020: €0 thousand) and income attributable to prior periods of €336 thousand (2020: €0 thousand).

Personnel expenses

(€ thousand)	2021	2020
Wages and salaries	21,397	16,218
Social security contributions	951	867
Retirement benefit cost	10,692	4,496
Welfare	-	1
	33,040	**21,582**

Most of the increase in wages and salaries relates to higher bonus expenses due to the exceptional net income in 2021 and to severance and furlough expenses.

Average number of employees over the year:

	2021	2020
Salaried employees	62	60
Wage earners	1	1
	63	**61**

The principles of the compensation system for the Management Board and the Supervisory Board are set out in detail with disclosures for individual members in the remuneration report, which is an integral part of the Management Report. The table below shows total compensation of members of the Management Board of Klöckner & Co SE – differing from the disclosures of compensation granted and allocated contained in the remuneration report – pursuant to the stipulations of German commercial law:

(€ thousand)	2021	2020
Fixed components	1,959	1,816
Bonuses	5,957	3,552
Other remunerations	463	197
Total persuant to section 285 Nr. 9a of the German commercial code	**8,379**	**5,565**

German Commercial Code (HGB)-basis pension provisions for former Management Board members amount to €22,085 thousand (2020: €5,449 thousand). Pension of €455 thousand (2020: €125 thousand) were paid to former members of the Management Board in the reporting year. In addition, a severance payment of €1,849 thousand was made to a Management Board member in the reporting year on termination of service on the Management Board.

Transactions with members of the Management Board are restricted in the reporting period to transactions in their capacity as members of the Management Board as set out above.

Other operating expenses

Remuneration for the Supervisory Board in fiscal year 2021 totaled €469 thousand (2020: €473 thousand).

The auditor of the individual and consolidated financial statements of Klöckner & Co SE is KPMG AG, Wirtschaftsprüfungsgesellschaft, Berlin, Germany. The audit opinion is signed by Wirtschaftsprüfer Christoph Velder (from fiscal year 2018) and Wirtschaftsprüfer Ulrich Keisers (from fiscal year 2016).

The following fees were incurred for services performed in the fiscal year by the auditor KPMG AG, Wirtschaftsprüfungsgesellschaft, Berlin, and are included in other operating expenses:

(€ thousand)	2021	2020
Audit of financial statements	927	577
Other assurance services	91	148
Tax advisory services	8	4
Other services	-	4
	1,026	**733**

The fees for the audit of financial statements mainly relate to the audit of the consolidated financial statements in accordance with IFRS and the audits performed by the auditors of the separate financial statements of the consolidated companies and the review of the half-year financial report.

The fees for other assurance services relate to project-related audits of parts of the accounting-related internal control system and other statutory or contractual audits.

The fees for tax consulting services relate to individual case consulting and ongoing consulting in connection with tax returns and advice on other national and international tax issues.

Income from investments

(€ thousand)	2021	2020
Income from participations	75,801	24,609
Income from profit transfer agreements	158,204	15,798
Expenses from loss transfer agreements	-	– 34,605
Income from investments	**234,005**	**5,802**

Income from participations relates to dividends from Debrunner Koenig Holding AG, St. Gallen, Switzerland.

The income from profit transfer agreements relates to agreements with Becker Besitz GmbH, Duisburg, Germany, Becker Stahl-Service GmbH, Duisburg, Germany, Klöckner Shared Services GmbH, Duisburg, Germany, kloeckner.v GmbH, Berlin, Germany, and Klöckner & Co Deutschland GmbH, Duisburg, Germany.

No losses were assumed in the reporting year.

Financial result

(€ thousand)	2021	2020
Income from long-term loans		
– affiliated companies	4,243	10,465
Other interest and similar income		
– affiliated companies	5,608	4,626
– other interest and similar income	-	37
Interest and similar expenses		
– affiliated companies	– 3,827	– 3,723
– interest on provisions	– 2,411	– 2,776
– other interest and similar expenses	– 5,903	– 8,055
	– 2,290	**574**

Interest income from affiliated companies and income from long-term loans results from Group financing. The interest expense on provisions exclusively relates to pension provisions.

Taxes

Taxes exclusively relate to taxes on income and affect the result from ordinary activities in their full amount.

The determination of deferred taxes resulted in a net deferred tax asset. In accordance with Section 274 (1) sentence 2 HGB, the Company elected not to recognize the net deferred tax asset. The tax expense consequently does not contain any deferred taxes. The net deferred tax asset not recognized amounts to €35,934 thousand (2020: €34,295 thousand) comprising deductible temporary differences in the amount of €36,606 thousand (2020: €35,526 thousand) less taxable temporary differences in the amount of €672 thousand (2020: €1,231 thousand). There are additionally tax loss carryforwards for which deferred tax assets could in principle be recognized and which would increase the amount of the net deferred tax asset not recognized.

Deductible temporary differences primarily originate from provisions for pensions, guarantees and provisions for onerous contracts. Deferred taxes were determined on the basis of a combined tax rate of 31.8% (2020: 31.8%) for corporate income tax, solidarity surcharge and trade tax.

Contingent liabilities

The contingent liabilities of Klöckner & Co SE exclusively comprise guarantees in the amount of €31,291 thousand (2020: €9,127 thousand) relating to foreign Group company loans and to guarantees and credit support granted to secure the financing of affiliated companies.

To the best of our knowledge, all Group companies concerned are in a position to meet their obligations in their course of their activities. As such, we do not expect that the guarantees will be called in.

Subsequent events

No events that would require disclosure in the financial statements have occurred subsequent to the end of the reporting period.

Other disclosures

Information pursuant to Section 160 (1) No. 8 of the German Stock Corporation Act (AktG)
Pursuant to Article 61 of the SE Regulation in conjunction with Section 160 (1) No. 8 AktG, information must be provided on the existence of shareholdings notified to the Company pursuant to Section 33 (1) or 33 (2) of the Securities Trading Act (WpHG).

Notifications of shareholdings in Klöckner & Co SE provided to us under Sections 40, 33 WpHG (or predecessor legislation, as applicable) that still apply and have not become obsolete by later notification of a shortfall below a threshold are set out in the annex to these Notes. Any shortfall below a threshold during the course of the reporting year is shown in the table contained in the annex. The table also includes any notifications under Sections 40, 33 WpHG made beyond the reporting year up to 1. März 2022 (if any). In cases where an investor's shareholdings have multiply reached, exceeded or fallen below the aforementioned thresholds, in general only the most recent notification leading to a threshold being exceeded, fallen below or reached is stated. If notifications have been made under a prior version of WpHG, those are reflected as they have been notified with the applicable old version of the WpHG (WpHG o.v.) being mentioned accordingly. It is pointed out that the stated percentage shareholding and number of voting rights may be out of date.

The listing pursuant to Section 160 (1) 8 AktG is annexed to these Notes.

Governing bodies
A list of the members of the Management Board and the Supervisory Board is attached as an appendix.

Declaration of Conformity
The Management Board and the Supervisory Board submitted the Declaration of Conformity in accordance with Section 161 AktG on December 13, 2021 and made it permanently publicly available to shareholders on the Klöckner & Co SE website.

Duisburg, March 1, 2022

Klöckner & Co SE
MANAGEMENT BOARD

Guido Kerkhoff
CHAIRMAN OF THE MANAGEMENT BOARD
(CEO)

Dr. Oliver Falk
MEMBER OF THE MANAGEMENT BOARD
(CFO)

John Ganem
MEMBER OF THE MANAGEMENT BOARD
(CEO AMERICAS)

Bernhard Weiß
MEMBER OF THE MANAGEMENT BOARD
(CEO EUROPE)

Independent Auditor's Report

To Klöckner & Co SE, Duisburg, Germany

Report on the Audit of the Financial Statements and the Management Report

Opinions

We have audited the annual financial statements of Klöckner & Co SE, Duisburg, which comprise the balance sheet as at December 31, 2021, and the statement of income for the fiscal year from January 1 to December 31, 2021, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the combined management report (hereinafter "management report") of Klöckner & Co SE for the fiscal year from January 1 to December 31, 2021, including the remuneration report contained in section 8 of the management report and its related disclosures.

In accordance with the German legal requirements we have not audited the parts of the management report referred to in the "Other Information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

– the attached annual financial statements comply in all material respects with the provisions of German commercial law applicable to corporations and give a true and fair view of the net assets and financial position of the Company as of December 31, 2021 and of its results of operations for the fiscal year from January 1 to December 31, 2021 in accordance with German principles of proper accounting; and

– the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the information in the management report referred to in the "Other Information" section.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as 'EU Audit Regulation') and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the fiscal year from January 1 to December 31, 2021. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Impairment of non-current investments

Please refer to the accounting policies described in the notes to the financial statements for more information on the accounting policies applied. Movements in non-current investments are presented in movements in intangible assets, property, plant and equipment and non-current investments.

FINANCIAL STATEMENT RISK

In the financial statements of Klöckner & Co SE as at December 31, 2021, the balance sheet item "non-current investments" includes investments in affiliated companies of EUR 1,084.6 million. Investments in affiliated companies amount to a 69% portion of total assets and thus have a material effect on the Company's net assets.

Financial assets are recognized at cost or, if they are expected to be permanently impaired, at their lower fair value. The Company determines the fair value of investments in affiliated companies using the income approach.

The cash flows used for the income approach are based on budgets for each affiliate for the next three years, extrapolated based on assumptions for long-term growth rates. They are discounted at a discount rate derived from the yield on a risk-equivalent alternative investment.

Impairment testing including the calculation of the fair value according to the capitalized earnings method is complex and, as regards the assumptions made, based largely on estimates and assessments of the Company. This applies particularly for estimates of future cash flows and the determination of the capitalization rate.

Against the background of permanently reduced earnings prospects, Klöckner & Co SE recognized impairment losses on shares in an affiliated company totaling EUR 34.7 million in the financial year. Impairment losses recognized in previous years on shares in another affiliated company were reversed by a total of EUR 31.7 million due to significantly improved earnings prospects in the financial year.

There is a risk for the financial statements that investments in affiliated companies are impaired.

OUR AUDIT APPROACH

First, we referred to explanations of the investment controlling department and assessed documentation to obtain an understanding of the Company's process for impairment testing of non-current investments that it holds. In doing this, we intensively analyzed the Company's approach to determining a need for impairment and, based on the information obtained in the course of our audit, assessed whether there were indications of a need for impairment that had not been identified by the Company.

We then carried out procedures including an evaluation of the methodical approach to conducting impairment testing and an assessment of the computational accuracy of the model. We involved our valuation experts in the process of auditing the parameters used for capitalization interest rates, and to assess the appropriateness of the valuation model. We have compared the assumptions and data underlying the capitalization rate, in particular the risk-free interest rate, the market risk premium and the beta factor, with our own assumptions and publicly available data.

We discussed the expected cash flows and the assumed long-term growth rates with those responsible for planning and assessed whether the projections underlying the valuations were based on appropriate and reasonable assumptions. To do this, we obtained clarification from the Company on these assumptions and the impact of strategic and operating activities on the projections. In addition, we have performed the reconciliation with the budget prepared by the legal representatives and approved by the Supervisory Board (first planning year) and the other two planning years taken note of.

To the extent possible, we confirmed the quality of the Company's previous forecasts by comparing the budgets of previous fiscal years with actual results and by analyzing deviations.

Finally, we discussed with the Management Board the measurements that had been established by Klöckner & Co SE and verified the accounting entry of the measurements derived from this.

OUR OBSERVATIONS

The approach used for impairment testing of non-current investments is appropriate and in line with the accounting policies. The assumptions and parameters used by the Company are appropriate.

Other information

Management and the Supervisory Board are responsible for the other information. The other information comprises the following parts of the management report, which have not been audited:

– the combined corporate governance statement of the Company and the Group contained in section 7 of the management report, and

– disclosures in the Group management report that are not normally part of the management report and are marked as unaudited.

The other information additionally comprises:

– the separate non-financial report published together with the management report, and

– the remaining parts of the annual report.

The other information does not include the annual financial statements, the audited disclosures in the management report and our related auditor's report.

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the above mentioned other information and, in so doing, to consider whether the other information

– is materially inconsistent with the annual financial statements, the audited information in the management report or our knowledge obtained in the audit, or

– otherwise appears to be materially misstated.

Responsibilities of management and the Supervisory Board for the financial statements and the management report

Management is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, management is responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, management is responsible for the preparation of the management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The Supervisory Board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Management and the Supervisory Board are further responsible for the preparation of the remuneration report, including the related disclosures, which is included in a separate section of the management report and complies with the requirements of Section 162 AktG. They are also responsible for such internal control as they determine is necessary to enable the preparation of a remuneration report, including the related disclosures, that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the annual financial statements and of the management report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements and the management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatements of the financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- obtain an understanding of an internal control relevant to the audit of the financial statements and of the arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

– conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

– Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.

– Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.

– Perform audit procedures on the prospective information presented by management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Report on assurance in accordance with Section 317 (3b) HGB on the electronic reproduction of the annual financial statements and the management report prepared for publication purposes

In accordance with Section 317 (3a) of the German Commercial Code (HGB), we have performed a reasonable assurance audit to determine whether the data contained in the file "kloecknercoseconsol.xhtml" (SHA256 hash value: a14eb 3211517ce55551cccf564750676c20b411b7ddc5e16438636e50890f886) and prepared for the purpose of disclosure comply with the requirements of Section 328 (1) HGB regarding the electronic reporting format ("ESEF format") in all material respects. In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the annual financial statements and the management report into the ESEF format and therefore relates neither to the information contained in this reproduction nor any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the annual financial statements and the management report contained in the above-mentioned and provided electronic file and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the above-mentioned file beyond this reasonable assurance opinion and our audit opinion on the accompanying annual financial statements and the accompanying management report for the fiscal year from January 1, to December 31, 2021 contained in the "Report on the Audit of the annual financial statements and of the management report" above.

We conducted our assurance work of the reproduction of the annual financial statements and the management report contained in the above-mentioned and provided electronic file in accordance with Section 317 (3a) HGB and the Exposure Draft of the IDW Assurance Standard: Assurance in accordance with Section 317 (3a) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (IDW PS 410 (10.2021)) and the International Standard on Assurance Engagements 3000 (Revised)]. Accordingly, our responsibilities are further described below. Our audit firm has applied the IDW Standard on Quality Management: Requirements for Quality Management in Audit Firms (IDW QS 1).

The Company's management is responsible for the preparation of the ESEF documents including the electronic reproduction of the annual financial statements and the management report in accordance with Section 328 (1) sentence 4 item 1 HGB.

In addition, the Company's management is responsible for the internal controls they consider necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB for the electronic reporting format.

The Supervisory Board is responsible for overseeing the preparation process of the ESEF documents as part of the financial reporting process.

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB. We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.

- obtain an understanding of internal control relevant to the assessment of the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.

- evaluate the technical validity of the ESEF documents, i.e. whether the provided electronic file containing the ESEF documents meets the requirements of Commission Delegated Regulation (EU) 2019/815 on the technical specification for this electronic file.

- evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited annual financial statements and the audited management report.

Further information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on May 12, 2021. We were engaged by the Supervisory Board on January 17, 2022. We have been the auditor of Klöckner & Co SE without interruption since fiscal year 2006.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

Other matters - use of the auditor's report

Our audit opinion should always be read in conjunction with the audited annual financial statements and the audited management report as well as the audited ESEF documents. The annual financial statements and management report converted to the ESEF format – including the versions to be published in the Federal Gazette – are merely electronic reproductions of the audited annual financial statements and the audited management report and do not replace them. In particular, the ESEF opinion and our audit opinion contained therein can only be used in conjunction with the audited ESEF documents provided in electronic form.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Christoph Velder.

Düsseldorf, March 1, 2022

KPMG AG
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

signed Velder
WIRTSCHAFTSPRÜFER

signed Keisers
WIRTSCHAFTSPRÜFER

Declaration of the Management Board

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

Duisburg, March 1, 2022

MANAGEMENT BOARD

Guido Kerkhoff
CHAIRMAN OF THE MANAGEMENT BOARD (CEO)

Dr. Oliver Falk
MEMBER OF THE MANAGEMENT BOARD (CFO)

John Ganem
MEMBER OF THE MANAGEMENT BOARD (CEO AMERICAS)

Bernhard Weiß
MEMBER OF THE MANAGEMENT BOARD (CEO EUROPE)

Annex to the notes to the financial statements and notes to the consolidated financial statements of Klöckner&Co SE

Subsidiary listing according to Sections 285 No. 11/313 para 2 German Commercial Code HGB)

No.	Entity	Interest in percent
1	Klöckner & Co SE, Duisburg/Germany	-
I.	**Consolidated affiliated companies**	
2	Klöckner & Co Financial Services S.A., Luxemburg/Luxemburg	100.00
3	Klöckner Shared Services GmbH, Duisburg/Germany	100.00
4	kloeckner.i GmbH, Berlin/Germany	100.00
5	kloeckner.v GmbH, Berlin/Germany	100.00
6	XOM Materials GmbH, Berlin/Germany	100.00
7	XOM Materials Operations Inc., Wilmington/Delaware/USA	100.00
8	Klöckner & Co Germany GmbH, Duisburg/Germany	100.00
9	Klöckner Stahl und Metall Ges.m.b.H., Wien/Austria	100.00
10	Kloeckner Metals Austria GmbH & Co KG, Wien/Austria	51.00
11	Klöckner Netherlands Holding B.V., Amsterdam/The Netherlands	100.00
12	ODS B.V., Rotterdam/The Netherlands	100.00
13	O-D-S Transport B.V., Barendrecht/The Netherlands	100.00
14	ODS Metering Systems B.V., Rotterdam/The Netherlands	100.00
15	ODS Belgium B.V., Essen/Belgium	80.00
16	ODS Metering Systems Asia Pacific Pte. Ltd., Singapore/Singapore	100.00
17	ODS Middle East FZE, Dubai/UAE	100.00
18	ODS Saudi Co. LLC, City of Dammam/Saudi Arabia	85.00
19	ODS do Brasil Sistemas de Medicao Ltda., Campinas, State of Sao Paulo/Brazil	99.00
		1.00
20	Kloeckner Metals Belgium N.V., Harelbeke/Belgium	99.99
		0.01
21	Kloeckner Metals UK Holdings Limited, Leeds/United Kingdom	100.00
22	ASD Limited, Leeds/United Kingdom	100.00
23	ASD Westok Limited, Leeds/United Kingdom	100.00
24	Richardsons Westgarth Ltd., Leeds/United Kingdom	100.00
25	Armstrong Steel Ltd., Leeds/United Kingdom	100.00
26	Kloeckner Metals France Holding S.A.S., Aubervilliers/France	99.58
27	Kloeckner Metals France S.A.S., Aubervilliers/France	100.00
28	Reynolds European S.A.S., Aubervilliers/France	100.00
29	AT2T Acier Transforme Targe Tournier S.A.S., La Grand-Croix/France	100.00
30	KDI Davum S.A.S., Le Port, La Réunion/France	100.00
31	KDI Export S.A.S., Rueil Malmaison/France	100.00
32	KDI Immobilier S.A.S., Aubervilliers/France	100.00
33	Prafer S.A.S., Woippy/France	100.00
34	Becker Besitz GmbH, Duisburg/Germany	100.00
35	Becker Stahl-Service GmbH, Duisburg/Germany	100.00

1) IFRS HBII amounts.
2) Profit and loss transfer agreement. Subsidiaries made use of the exemption provided in Section 264 (3) and Section b of the German Commercial Code (HGB).

Held by entity no.	Currency	Equity in Euro[1)]	Net income in Euro[1)]		Sales in Euro[1)]
-		-	-		-
1	EUR	3,797,686.81	167,498.28		-
1	EUR	– 1,138,102.26	335,329.37	[2)]	-
1	EUR	1,523,035.71	1,226,799.97	[2)]	-
1	EUR	6,228,522.60	8,321,616.59	[2)]	-
1	EUR	2,154,812.75	– 10,465,962.96		350,027
6	EUR	2,905.97	– 220,277.79		-
1	EUR	66,115,559.27	53,960,907.71	[2)]	1,033,217,449
8	EUR	106,546.46	– 869,283.54		-
9	EUR	30,698,587.95	20,764,891.43		135,395,722
1	EUR	38,168,788.21	8,025,181.10		-
11	EUR	27,892,980.71	3,099,479.24		169,131,436
12	EUR	-	-		-
12	EUR	15,735,442.02	– 901,822.42		22,603,809
14	EUR	949,616.46	124,083.58		4,011,419
14	EUR	234,171.42	27,171.32		-
14	EUR	6,779,484.48	3,120,675.49		7,862,089
14	EUR	1,530,562.34	160,068.96		3,471,891
14	EUR	5,353,805.06	995,959.68		18,026,623
-	EUR	-	-		-
1	EUR	16,826,840.39	6,370,840.43		75,578,716
-	EUR	-	-		-
1	EUR	104,291,974.06	– 7,490,557.10		-
21	EUR	126,522,573.19	15,959,220.52		283,161,792
21	EUR	915,942.60	– 2,266,334.60		19,783,884
21	EUR	0.12	– 3,672,189.39		-
22	EUR	-	-		-
1	EUR	159,648,904.76	– 70,074,666.66		-
26	EUR	37,205,431.79	22,634,345.64		307,787,133
26	EUR	11,772,668.91	1,638,878.87		48,385,780
27	EUR	12,438,008.29	6,493,559.17		62,072,871
27	EUR	– 372,484.98	– 1,003,591.27		14,651,842
27	EUR	– 869,197.56	– 31,635.91		-
27	EUR	95,454,453.97	10,143,802.13		-
27	EUR	– 5,822,987.13	119,539.97		– 202,755
1	EUR	25,000.00	-	[2)]	-
1	EUR	113,972,067.50	– 81,026.78	[2)]	638,683,844

Subsidiary listing according to Sections 285 No. 11/313 para 2 German Commercial Code (HGB)

No.	Entity	Interest in percent
36	Becker Stahl-Service GmbH, Duisburg/Germany	100.00
37	Becker Stahl GmbH, Bönen/Germany	100.00
38	Umformtechnik Stendal GmbH, Stendal/Germany	100.00
39	Debrunner Koenig Holding AG, St. Gallen/Switzerland	100.00
40	BEWETEC AG, Oberbipp/Switzerland	100.00
41	Debrunner Acifer AG, St. Gallen/Switzerland	100.00
42	Debrunner Acifer Bewehrungen AG, St. Gallen/Switzerland	100.00
43	Metall Service Menziken AG, Menziken/Switzerland	100.00
44	Klöckner USA Holding Inc., Wilmington/Delaware/USA	100.00
45	Kloeckner Metals Corporation, Wilmington/Delaware/USA	100.00
46	California Steel and Tube LLC, Wilmington/Delaware/USA	100.00
47	Kloeckner Metals P.R., Inc., Wilmington/Delaware/USA	100.00
48	Kloeckner Metals Relief Fund, Inc., Wilmington/Delaware/USA	100.00
49	Kloeckner Metals Servicios de Mexico, S.A. de C.V., Apodaca, Estado de Nuevo Leon/Mexico	100.00
50	Kloeckner Metals de Mexico S.A. de C.V., Monterrey, Estado de Nuevo Leon/Mexico	100.00
51	Kloeckner Metals Brasil Ltda., Sao Paulo/Brazil	100.00

Held by entity no.	Currency	Equity in Euro[1]	Net income in Euro[1]		Sales in Euro[1]
35	EUR	241,995.20	26,356.80	2)	83,579,714
35	EUR	584,059.74	7,983.70	2)	-
35	EUR	4,222,188.74	-	2)	18,547,490
1	EUR	361,084,142.06	22,851,842.78		-
39	EUR	102,947,852.13	5,974,681.28		186,704,965
39	EUR	246,100,378.86	23,164,110.96		602,512,079
39	EUR	42,519,950.31	9,850,033.95		178,314,205
39	EUR	32,768,298.59	11,812,575.06		114,082,237
1	EUR	118,045,142.18	-3,080.72		-
44	EUR	719,202,913.60	273,305,607.20		3,260,233,425
45	EUR	26,933,119.79	12,921,182.50		44,295,399
45	EUR	1,181,400.11	165,067.42		1,810,561
45	EUR	73,019.58	69,924.06		-
45	EUR	276,263.33	26,294.81		-
45	EUR	30,462,830.51	8,543,804.91		123,083,253
1	EUR	8,310,829.23	2,076,506.82		46,542,343

Subsidiary listing according to Sections 285 No. 11/313 para 2 German Commercial Code (HGB)

No.	Entity	Interest in percent	
II.	**Non-consolidated affiliated companies**		
52	ASD GP Limited, Edinburgh/United Kingdom	100.00	
53	ASD RBS Trustee Limited, Leeds/United Kingdom	100.00	
53	Reynolds Aluminium et Laiton S.A.S., Paris/France	100.00	
54	Umformtechnik Stendal UTS s.r.o., Skalica/Slovakia	100.00	
56	ASD RBS SCOTTISH LIMITED PARTNERSHIP, Edinburgh, United Kingdom	50.00	
		50.00	
III.	**Associates**		
57	Birs-Stahl AG, Birsfelden/Switzerland	50.00	

Held by entity no.	Currency	Equity in Euro[1]	Net income in Euro[1]		Sales in Euro[1]
22	EUR	119.00	-		-
22	EUR	119.00	-		-
26	EUR	17,343.00	– 1,675.00		-
38	EUR	278,607.00	27,695.71	3)	42,864
52	EUR	238.00	-		-
53	EUR	-	-		-
42	EUR	984,045.85	8,659.88	3)	1,169,562

3) Based on report as of December 31, 2020.

Listing pursuant to Section 160 (1) No. 8 of the German Stock Corporations Act (AktG)

For further information on the ownership structure of Klöckner & Co SE and all publications by Klöckner & Co SE on notifications of shareholdings in the reporting year, together with later notifications, please see the Klöckner & Co SE website (at https://www.kloeckner.com/en/investors/shares.html and https://www.kloeckner.com/en/investors/legal-announcements/voting-rights.html).

Notifier	Registered office/Country	Notification threshold	Date on which threshold was crossed or reached	Total positions in % (absolute figure/total number of voting rights)		
				Total	Voting rights	Instruments
SWOCTEM GmbH [1]	Haiger, Germany	25% (Exceeding of threshold)	February 2, 2016	25.245604% (25,182,490/99,750,000)	25.245604% (25,182,490)	
Prof. Dr. Friedhelm Loh [2]	Germany	25% (Exceeding of threshold)	February 2, 2016	25.245604% (25,182,490/99,750,000)	25.245604% (25,182,490)	
Claas Edmund Daun		3% (Exceeding of threshold)	May 17, 2019	3.05% (3,047,051/99,750,000)	3.05% (3,047,051)	0%
Franklin Mutual Advisers, LLC	Wilmington, Delaware, USA	3% (Shortfall threshold)	March 15, 2021	2.83% (2,819,215/99,750,000)	2.83% (2,819,215)	0%
DWS Investment GmbH	Frankfurt am Main, Germany	3% (Shortfall threshold)	June 21, 2021	2.90% (2,897,382/99,750,000)	2.90% (2,897,382)	0.00%
The Goldman Sachs Group, Inc. [3]	Wilmington, DE, USA	5% (Shortfall threshold)	December 21, 2021	4.94%	2.60% (2,594,227)	2.34%

1) For the full chain of controlled undertakings stated in the notification, please see our publication of February 9, 2016 pursuant to Section 26 (1) WpHG o.v..
2) For the full chain of controlled undertakings stated in the notification, please see our publication of February 9, 2016 pursuant to Section 26 (1) WpHG o.v..
3) For the full chain of controlled undertakings stated in the notification, please see our publication of December 23, 2021 pursuant to Section 40 (1) WpHG.

Voting rights attached to shares in % or absolute figures (as notified)		Financial instruments according to Section 38 WpHG (if notified)		Attribution provision of WpHG (as in force at time of notification)	Names of shareholders with 3% or more voting rights (if different from notifier)
direct	indirect	Sec. 38 (1) No. 1 WpHG	Sec. 38 (1) No 2 WpHG		
25.245604% (25,182,490)					
	25.245604% (25,182,490)			Sec 22 WpHG o.v. (now: Sec 34 WpHG)	SWOCTEM GmbH
	3.05% (3,047,051)			Sec 34 WpHG	DAUN & CIE. Aktiengesellschaft
	2.83% (2,819,215)			Sec 34 WpHG	
	2.90% (2,897,382)			Sec 34 WpHG	
	2.60% (2,594,227)	1.90% (1,891,325)	0.44% (441,148)	Sec 34 WpHG	

Additional information concerning the consolidated and individual financial statements

Attachment to the additional information

Information on additional mandates of the members of the Management Board of Klöckner & Co SE (Section 285 no. 10 German Commercial Code (HGB – Handelsgesetzbuch)

Guido Kerkhoff

CHAIRMAN OF THE MANAGEMENT BOARD

Group mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- Klöckner USA Holding Inc., Wilmington/USA, Member of the Board of Directors
- Klöckner Namasco Holding Corporation, Wilmington/USA, Member of the Board of Directors (until December 31, 2021)
- Klöckner & Co Deutschland GmbH, Duisburg, Chairman of the Supervisory Board
- ODS B.V., Rotterdam/The Netherlands, Chairman of the Supervisory Board (until June 15, 2021)
- ODS Metering Systems B.V., Rotterdam/The Netherlands, Chairman of the Supervisory Board
- Debrunner Koenig Holding AG, St. Gallen/Switzerland, Chairman of the Board of Directors (until January 25, 2021)

Other mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- None

Dr. Oliver Falk

MEMBER OF THE MANAGEMENT BOARD, CFO

Group mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- Klöckner USA Holding Inc., Wilmington/USA, Member of the Board of Directors
- Klöckner & Co Deutschland GmbH, Duisburg, Member of the Supervisory Board
- ODS B.V., Rotterdam/The Netherlands, Member of the Supervisory Board
- ODS Metering Systems B.V., Rotterdam/The Netherlands, Member of the Supervisory Board

Other mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- None

John Ganem

MEMBER OF THE MANAGEMENT BOARD

Group mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- Kloeckner Metals Relief Fund Inc., Wilmington/USA, Member of the Board of Directors

Other mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- None

Bernhard Weiß

MEMBER OF THE MANAGEMENT BOARD (SINCE JUNE 1, 2021)

Group mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- ODS B.V., Rotterdam/The Netherlands, Chairman of the Supervisory Board (since June 1, 2021)

Other mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- None

Gisbert Rühl, CEO

CHAIRMAN OF THE MANAGEMENT BOARD, CEO (UNTIL MAY 12, 2021)

Group mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- None

Other mandates in legally required Supervisory Boards and comparable domestic and foreign corporate bodies

- RWE Power AG, Essen, Member of the Supervisory Board
- Röchling SE & Co. KG, Mannheim, Member of the Advisory Board
- KREATIZE GmbH, Berlin, Member of the Advisory Board

Additional mandates of the members of the Supervisory Board of Klöckner & Co SE (Section 285 no. 10 HGB)

Prof. Dr. Dieter H. Vogel, Chairman

MANAGING PARTNER, CASSIOPEIA GMBH, DÜSSELDORF, GERMANY

- denkwerk GmbH, Member of the Advisory Board[2)]
- HSBC Trinkaus & Burkhardt AG, Member of the Advisory Board[2)]

Dr. Ralph Heck, Deputy Chairman

ENTREPRENEUR AND DIRECTOR EMERITUS MCKINSEY & COMPANY, MEGGEN, SWITZERLAND

- Bilfinger SE, Member of the Supervisory Board[1)] (until April 15, 2021)
- Adolf Würth GmbH & Co. KG, Member of the Advisory Board[2)]
- Formel D GmbH, Chairman of the Advisory Board[2)]

Prof. Dr. Karl-Ulrich Köhler (until May 12, 2021)

CHAIRMAN OF THE MANAGEMENT BOARD OF SHS-STAHL-HOLDING-SAAR GMBH, DILLINGEN/SAAR, GERMANY (SINCE JANUARY 1, 2021)

- Montan-Stiftung-Saar, Member of the Board of Trustees[2)]

Prof. Dr. Tobias Kollmann

CHAIR OF DIGITAL BUSINESS AND DIGITAL ENTREPRENEURSHIP AT THE UNIVERSITY OF DUISBURG-ESSEN, GERMANY

- COMECO GmbH & Co KG, Deputy Chairman of the Supervisory Board[2)]
- StartUp Ökovation Verwaltungs GmbH, Member of the Advisory Board[2)] (since November 23, 2021)

Uwe Röhrhoff

INDEPENDENT CONSULTANT AND SUPERVISORY BOARD MEMBER (SINCE MAY 12, 2021)

- EPL Limited, Member of the Supervisory Board, Chairman of the Nomination and Remuneration Committee[2)]
- Constantia Flexibles Holding GmbH, Member of the Supervisory Board[2)]
- PGP Glass Private Limited, Non Executive Director[2)]
- Shamrock Group Limited, Director of Board[2)] (until August 17, 2021)
- BTO Tenere Cayman GP LLC, Non Employee Member of the Board of Managers[2)] (since January 12, 2022)

Prof. Dr. Friedhelm Loh

ENTREPRENEUR, OWNER AND CHAIRMAN OF FRIEDHELM LOH STIFTUNG & CO. KG, HAIGER, GERMANY

- None

Ute Wolf

CFO OF EVONIK INDUSTRIES AG, ESSEN, GERMANY

- DWS Group GmbH & Co. KGaA, Member of the Supervisory Board[1)]
- Pensionskasse Degussa VVaG, Member of the Supervisory Board[1)]
- Borussia Dortmund Geschäftsführungs-GmbH, Member of the Economic Council[2)]

1) Membership in legally required Supervisory Boards as defined by Section 125 German Stock Corporations Act (AktG).
2) Membership in similar corporate Supervisory Bodies in Germany and abroad as defined by Section 125 German Stock Corporations Act (AktG).

Disclaimer

This report (particularly the "Forecast" section) contains forward-looking statements which reflect the current views of the management of Klöckner & Co SE with respect to future events. They generally are designated by the words "expect", "assume", "presume", "intend", "estimate", "strive for", "aim for", "plan", "will", "endeavor", "outlook" and comparable expressions and generally contain information that relates to expectations or goals for economic conditions, sales proceeds or other yardsticks for the success of the enterprise. Forward-looking statements are based on currently valid plans, estimates and expectations and are therefore only valid on the day on which they are made. You therefore should consider them with caution. Such statements are subject to numerous risks and factors of uncertainty (e.g. those described in publications) most of which are difficult to assess and which generally are outside of the control of Klöckner & Co SE. The relevant factors include the effects of significant strategic and operational initiatives, including the acquisition or disposal of companies or other assets. If these or other risks and factors of uncertainty occur or if the assumptions on which the statements are based turn out to be incorrect, the actual results of Klöckner & Co SE can deviate significantly from those that are expressed or implied in these statements. Klöckner & Co SE cannot give any guarantee that the expectations or goals will be attained. Klöckner & Co SE – notwithstanding existing legal obligations – rejects any responsibility for updating the forward-looking statements through taking into consideration new information or future events or other things. In addition to the key figures prepared in accordance with IFRS and German-GAAP respectively, Klöckner & Co SE is presenting non-GAAP key figures such as EBITDA, EBIT, Net Working Capital and net financial liabilities that are not a component of the accounting regulations. These key figures are to be viewed as supplementary to, but not as a substitute for data prepared in accordance with IFRS. Non-GAAP key figures are not subject to IFRS or any other generally applicable accounting regulations. In assessing the net assets, financial position and results of operations of Klöckner & Co SE, these supplementary figures should not be used in isolation or as an alternative to the key figures presented in the consolidated financial statements and calculated in accordance with the relevant accounting principles. Other companies may base these concepts upon other definitions. Please refer to the definitions in this annual report. For other terms not defined in this annual report, please refer to the glossary on our website at https://www.kloeckner.com/en/glossary.html.

Rounding
There may be rounding differences with respect to the percentages and figures in this report.

Variances for technical reasons
Variances may arise for technical reasons (e.g., conversion of electronic formats) between the accounting documents contained in this Annual Report and the format submitted to the Federal Gazette (Bundesanzeiger). In this case, the version submitted to the Federal Gazette shall be binding.

This English version of the Annual Report is a courtesy translation of the original German version; in the event of variances, the German version shall prevail over the English translation.

Evaluating statements
Evaluating statements are unified and are presented as follows:

+/– 0–1%	constant
+/– >1–5%	slight
+/– >5%	considerable

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FINANCIAL CALENDAR 2022

March 9, 2022	**Annual Financial Statements 2021** Financial statement press conference Conference Call with analysts
May 4, 2022	**Q1 quarterly statement 2022** Conference Call with journalists Conference Call with analysts
June 1, 2022	**Annual General Meeting 2022**
August 3, 2022	**Half-yearly financial report 2022** Conference Call with journalists Conference Call with analysts
November 3, 2022	**Q3 quarterly statement 2022** Conference Call with journalists Conference Call with analysts

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