



Klöckner & Co SE

A Leading Multi Metal Distributor



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COO

Update on Operations Europe

Capital Market Days 2010

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Agenda

01 Introduction and Review

02 Central Business Development

IPM → Highlights

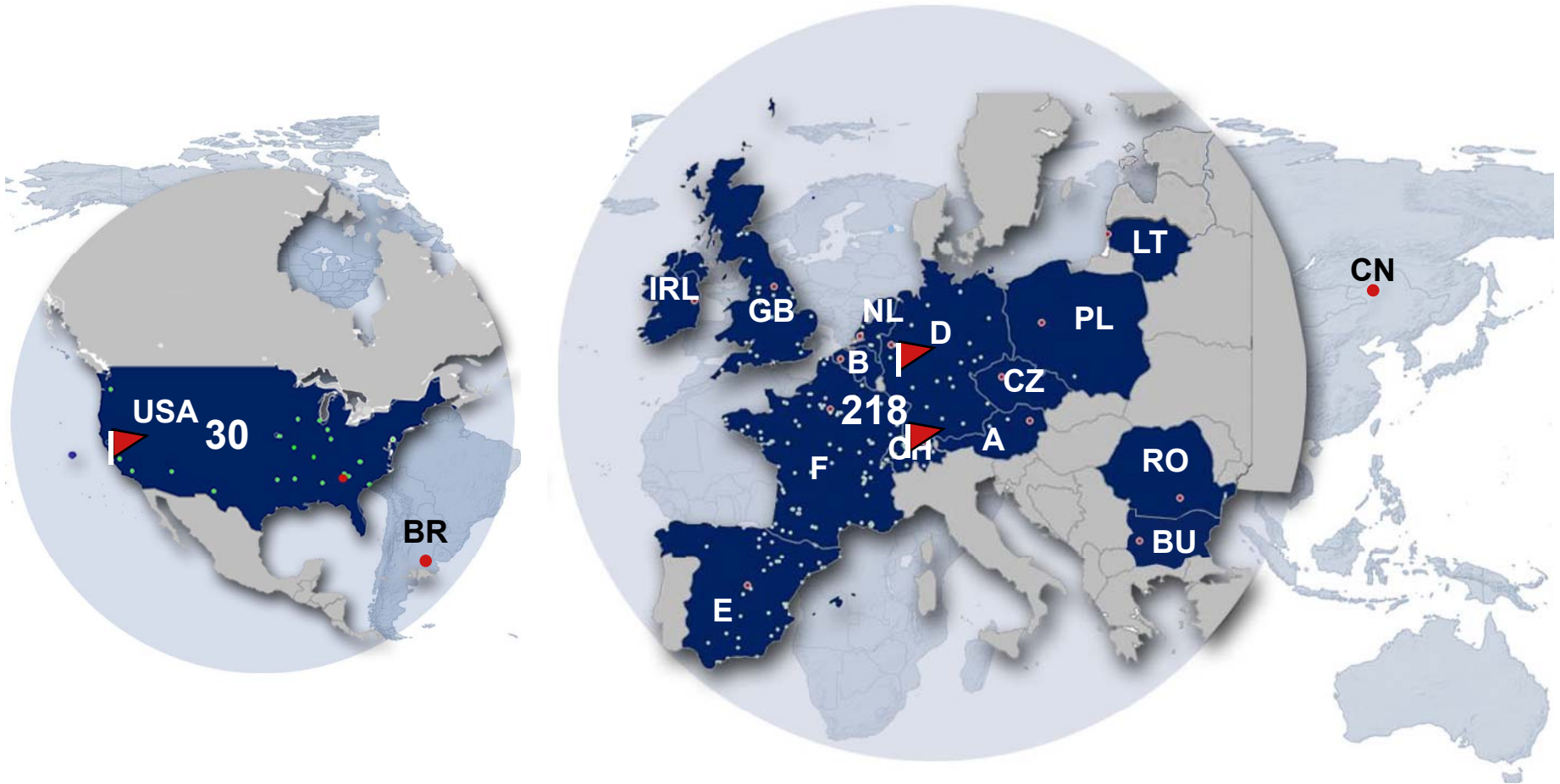
Network Structure Europe → Highlights

03 Business Chances Klöckner / BSSC

04 Update USA

05 Wrap-Up





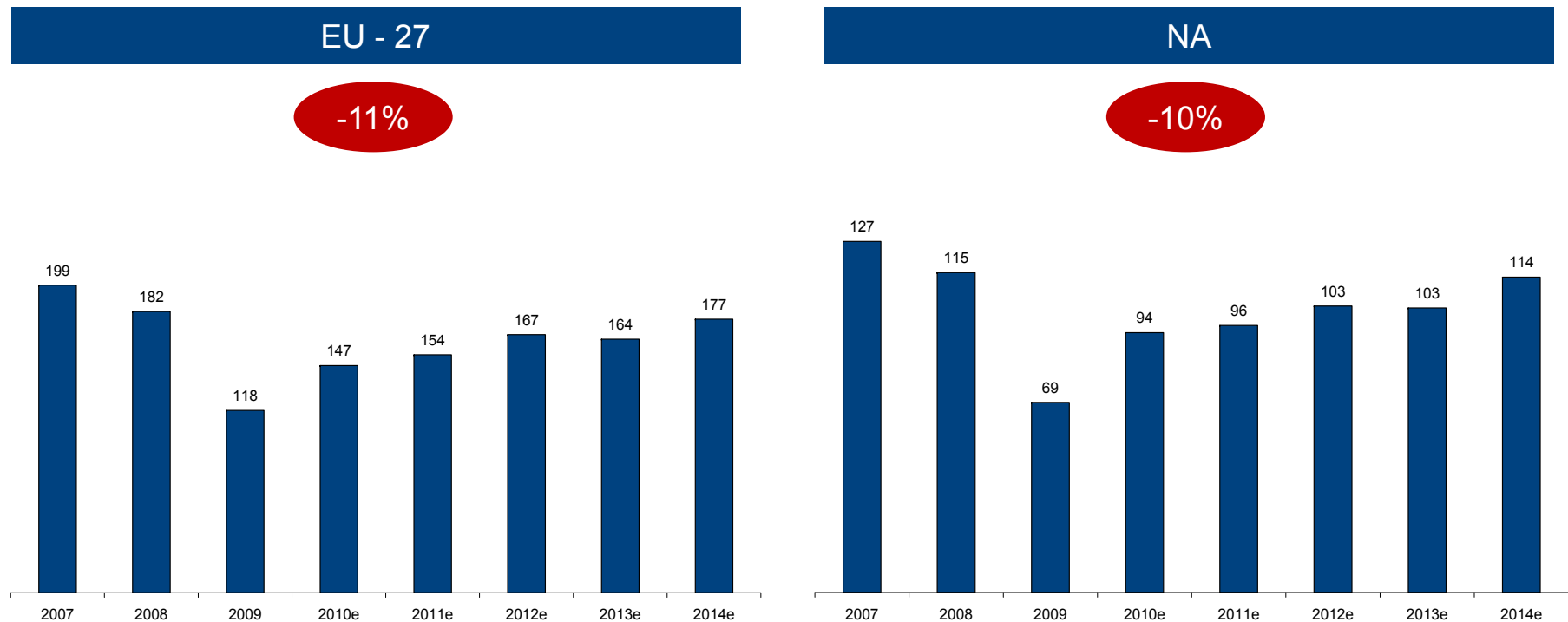
 = acquisitions already done post crisis



Introduction and review: Growth of steel consumption in our core markets is only limited

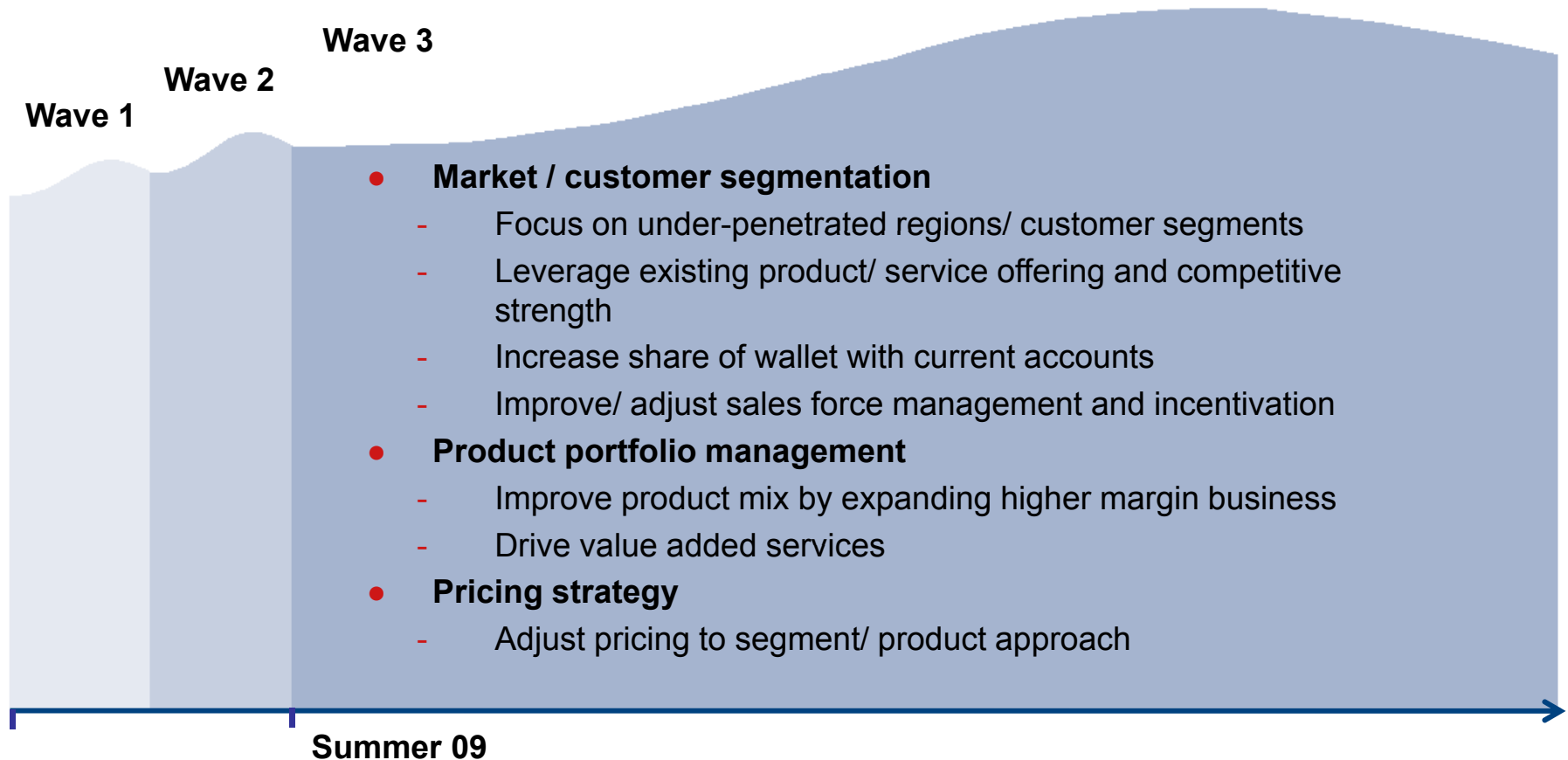
- Recovery to pre crisis levels in our existing markets will most likely take years
- Limited long-term growth prospectus of steel-consumption thereafter

Apparent steel consumption in Mio. to



Source: meps





Pro-active market initiatives to leverage improved competitive position



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IPM & Global Sourcing

Sourcing and supply strategy

International Product-Management

- Supplier and sourcing strategy
- Product strategy, global/ local
- Responsibility for purchases and stock
- Margin policy and strategy
- Negotiation of global conditions

Sales and product development

International Key Account Management

- Cross-national coordination key accounts
- Identification new key accounts
- Negotiation of global agreements and Group solutions

Stock management

Klößner Global Sourcing

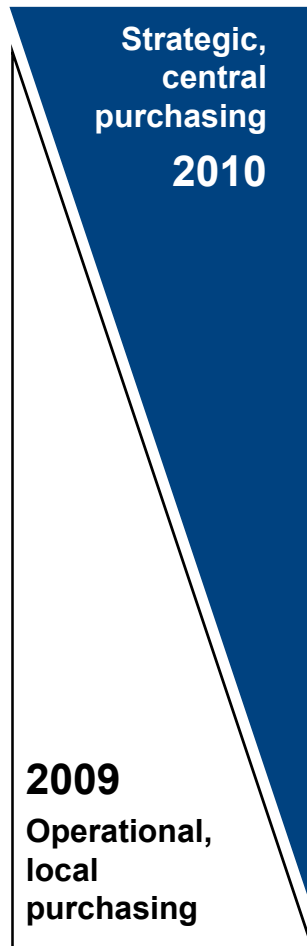
- Steel purchases in third countries
- Establish and intensify relationships with suppliers
- Support/ assistance for international key accounts
- Assistance representative office China

Controlling / Reporting

- Purchasing reporting
- Supplier and price monitoring
- Analysis/ KPI for procurement decision
- System for supplier evaluation
- Definition article structure (UAS)



Purchasing

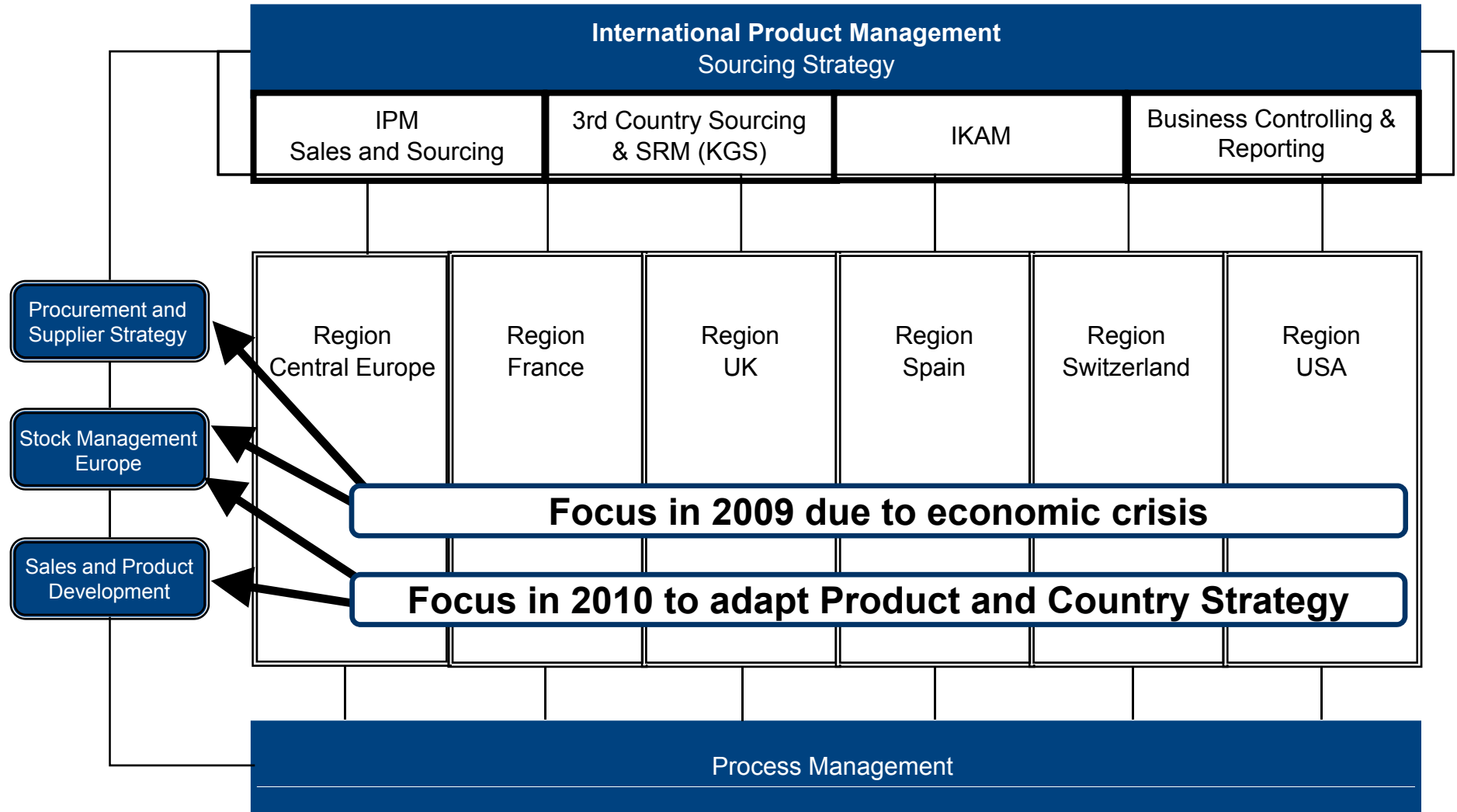


- Definition of **purchasing strategy**
- Definition of **stock targets** per product and country
- **Selection** of key/support suppliers
- Negotiation of **frame conditions** for key and support suppliers (payment terms, central bonus)
- Target setting for **local bonus** for key and support suppliers
- Monthly/quarterly **price negotiation** for key and support suppliers and **allocation of volumes** to suppliers
- **Local purchasing**
 - Article families outside of EPM activities
 - Purchasing within EPM articles, but outside of bundled volume
- Calculation of **local demand**
- **Ordering** and order tracking

Product strategy development

- Analysis of **strengths and weaknesses** across countries
- Identification of **growth targets**
 - New products
 - **Alignment** of processing abilities with potential new products
 - Support to select **M&A targets**
- **Portfolio optimization**/complexity reduction
- Strategy **implementation**
 - **Knowledge exchange**
 - **Training**
 - **Monitoring**

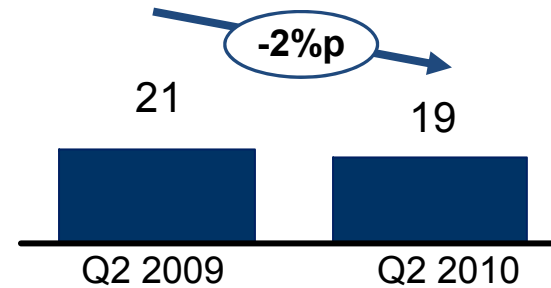




**Introduction of
joint stock
manage-
ment**

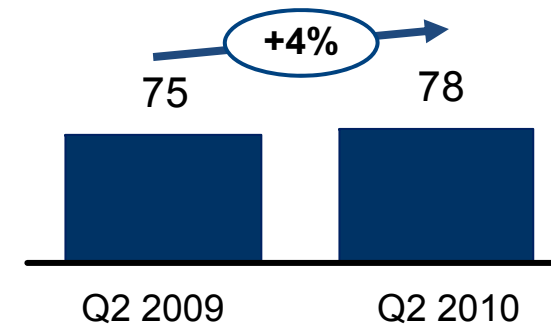
**Ratio of working
capital to sales**

Europe
%



Inventory reach

Europe
Days



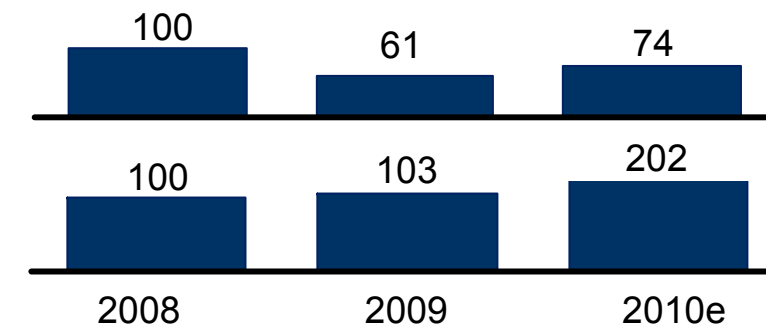
**Creation of a
joint pur-
chasing
function**

Bonuses

Europe
%

local

group



Volatility

Analytical sourcing method:

- Macro trend analysis
 - Timeline raw material price development
 - Timeline capacity utilization
 - Correlation trends (scrap, oil, iron ore, coal)

Past cycle analysis

- Min-Max-Indicators
- Off-Balance-Strategies (Expert to OEM-Integration)
- Re-sale-Support / Buying-Indicators

Price increase

Integrative disposition

- Supply chain integration
 - Rolling rhythm
 - „Capacity purchase“

Active/short-term commodity sourcing

































- Volume / Pricefixing
- Prevention of Max-Hits
- Identification of Min-Hits

KAM integration in sourcing activities

- Common decision
- Leverage Volume Supply-Chain



Central Business Development: Example: Product strategy development (Tubes)

Product Group	Local Stock	Central Stock	Know how	Customer Base	Supplier Base Strategy	Clear Development Goals	Value-added Services	Dependency of Specialist
1								
2								
3								
4								



Strengthen the Strengths by:

Country: clear statements for tube development by

- segments:
- products:
- VAS:

Klöckner Group:

- central stock organization for KDI, KSM, ODS, DA
- Strengthen PM support (purchasing, know-how and info transfer, etc.)



Central Business Development: Example: Product strategy development (Tubes)

Product Group	Local Stock	Central Stock	Know how	Customer Base	Supplier Base Strategy	Clear Development Goals	Value-added Services	Dependency of Specialist
5								
6								
7								



Turn Weakness to Strengths by:

Country:

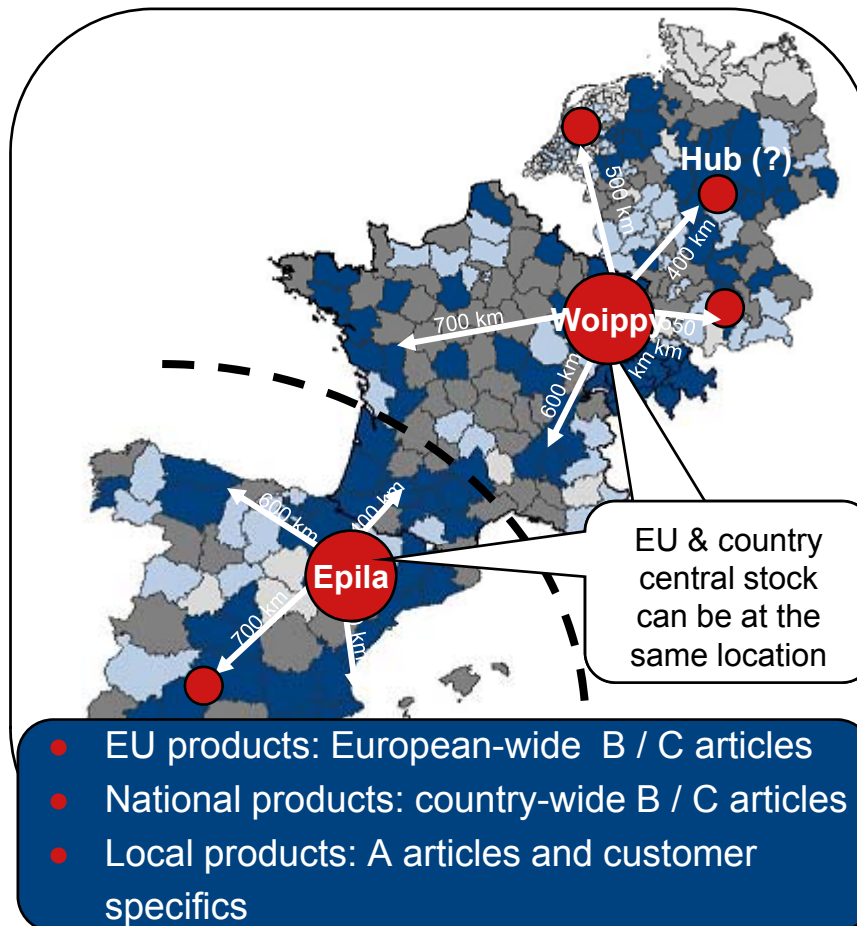
- concentrate on special tubes; hire a specialist as a coordinator and for key accounts
- clear market development statements
- adjust stock
- focus on step getting into industrial segment

KlöCo Group:

- build up central stock for seamless tubes for KDI, KSM, ODS, DA
- build up wider supplier base
- support with documentation
- investigation for central stock requirements for special tubes



3 layer structure with two central stocks for Europe and one central stock per country (product optimization)

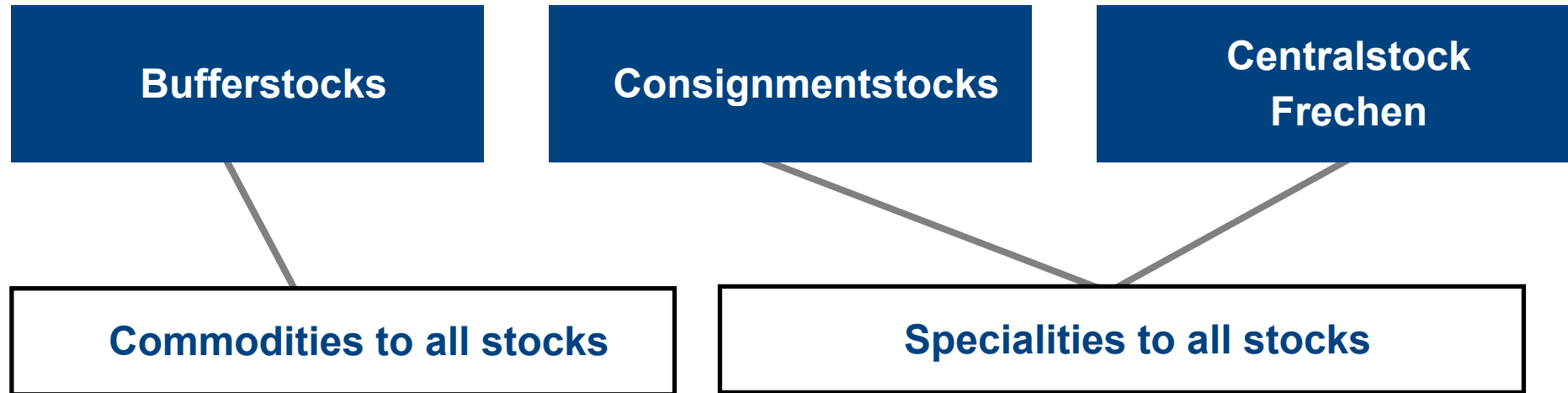


- **Target** is to identify the **most efficient way for Klöckner as a Group** to organize its **warehouse structure**
- Due to the **lead time restrictions** in combination with the **large distances** **one single central stock for total Europe is not realistic**



- Low GM due to extreme market situation:
 - Low demand in construction
 - Overcapacity on production level
- Goal: Increase profitability / GM
 - Improvement in efficiency of supply chain
 - Central stock for Central Europe
 - Change in purchasing method
 - Sales development
 - Strengthen existing USPs (Westok / Prafer)
 - Intelligent project sales



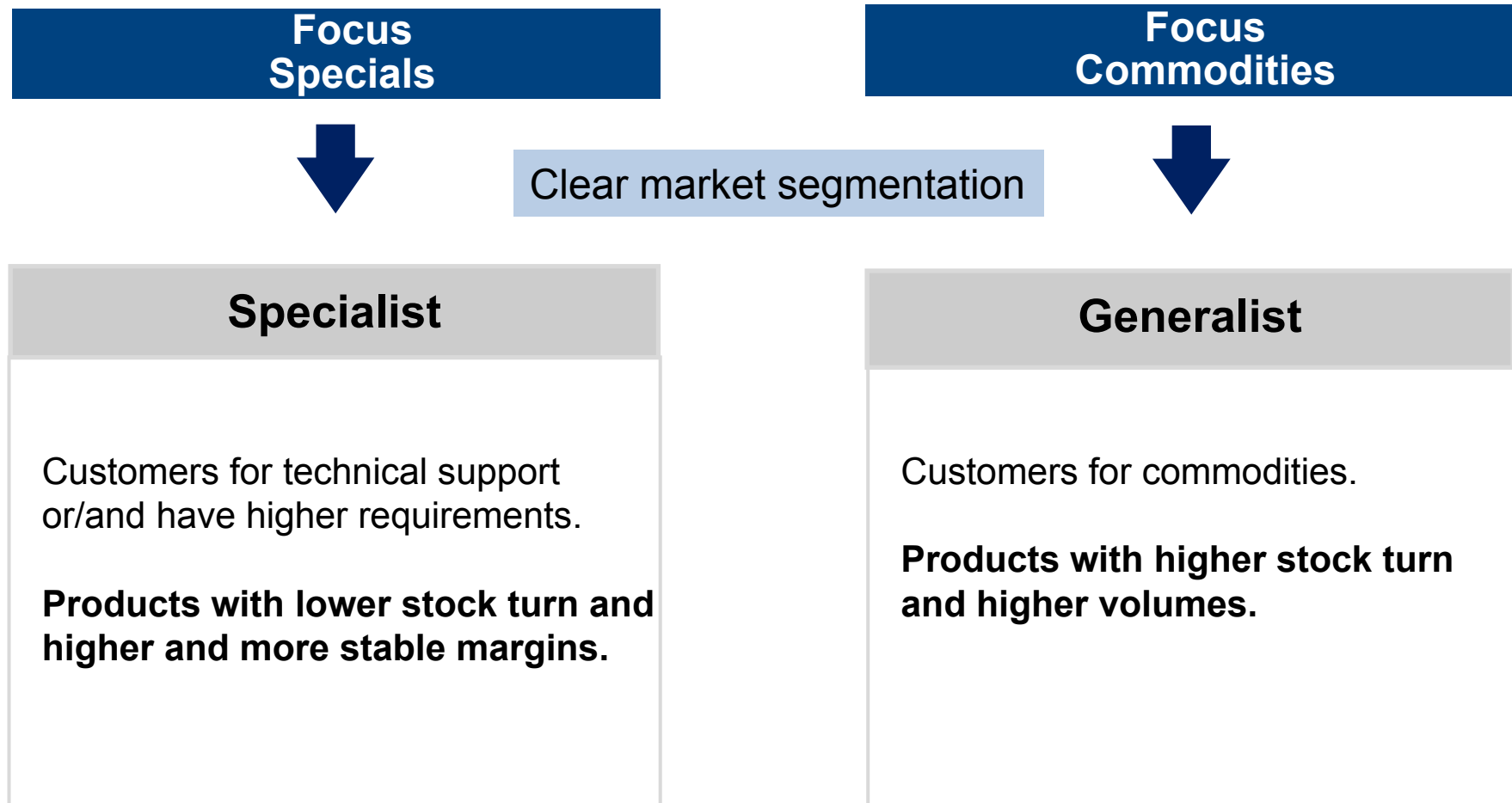


- Higher stock turn and reduction of bundled capital
- The mills bear the risk
- Flexibility to optimize the windfall profits and minimize the windfall losses
- Better availability at the best price
- Short delivery times to every location

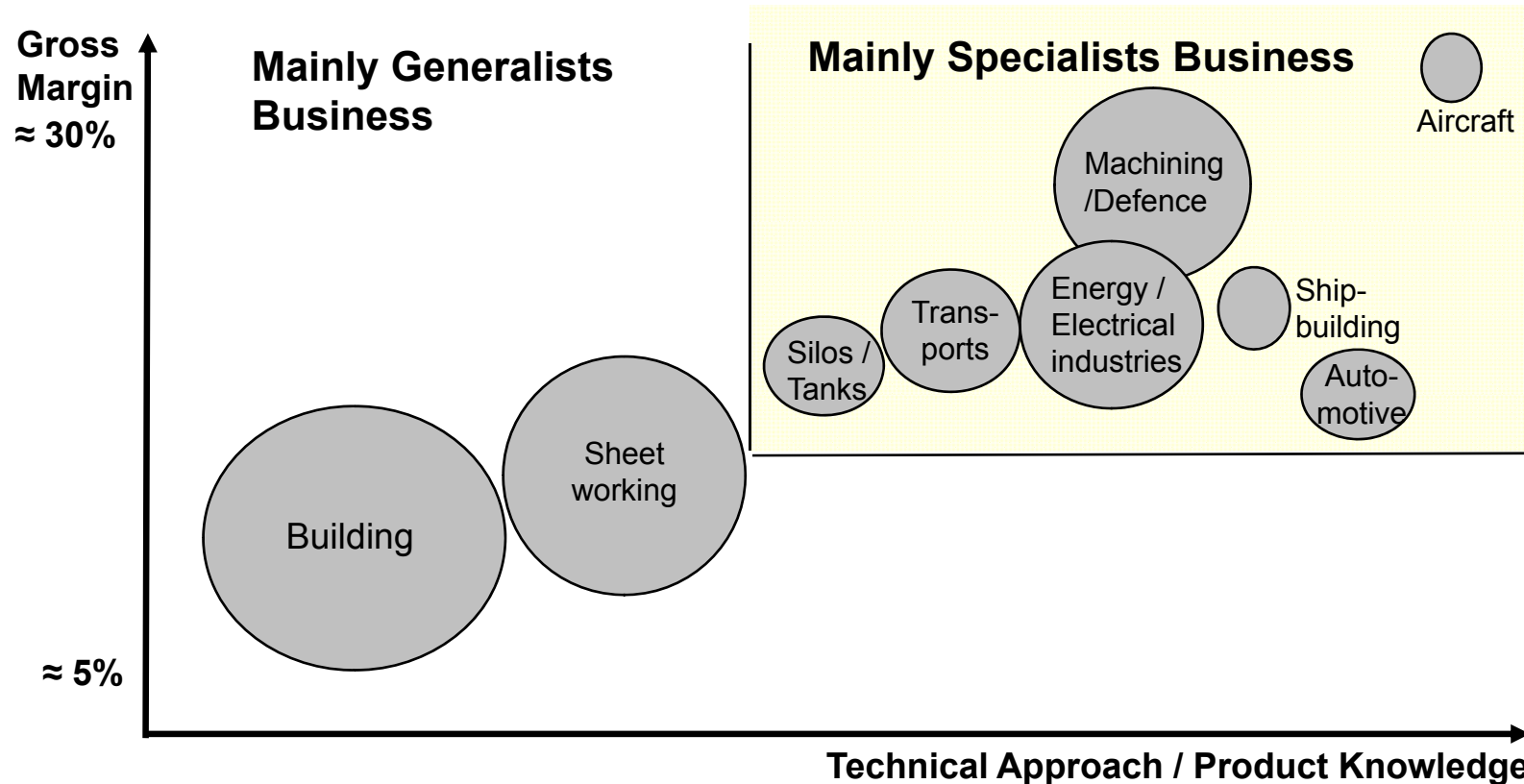
- Better product range
- Higher gross margin
- Reduction of invested capital
- Short delivery times
- Increase the market share
- Developing of new markets



SALES: We need also specialists to expand the market share

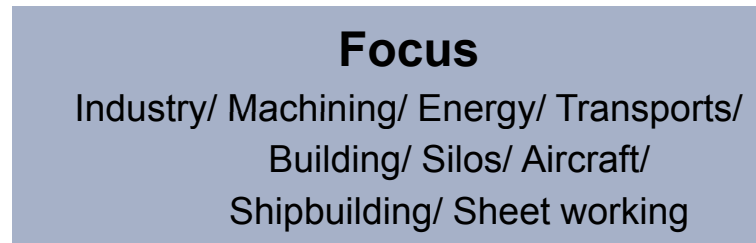


Customer segments and market volume via distributors in Europe



To cope with customers requirements we need a specialists sales organisation in customer segments with high technical demand/ needs

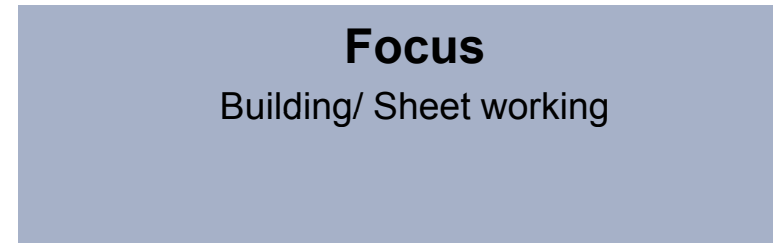




Specialist

Customer who needs more technical approach and more than commodities.

Gross Margin: 10 – 30%



Generalist

Customer who needs mostly commodities.

Gross Margin: 5 – 15%

- Rules to avoid internal competition have to be defined
- Customer has to be classified – who is responsible for the customer?
- Placement of the specialist within the existing company?



- Organic growth to be supported by two main initiatives:
 1. Product portfolio
 2. Growth strategies with industrial application focus

Product portfolio adjustments (Countries)

Extension

Tubes

Stainless Spec.

Aluminium

Plate Spec.

Hollow Sections

Optimization

Beams

Quality Steels

Stainless Comm.

Sheets

Plate Comm.

Growth initiatives industry

Extension

Sheets

Hollow Sections

Tubes

Plates

Regional expansion (white spots)

Processing extension



**Large companies involved in the production and processing industry
with a significant consumption rate of steel and metal materials**

Multi-national production plants

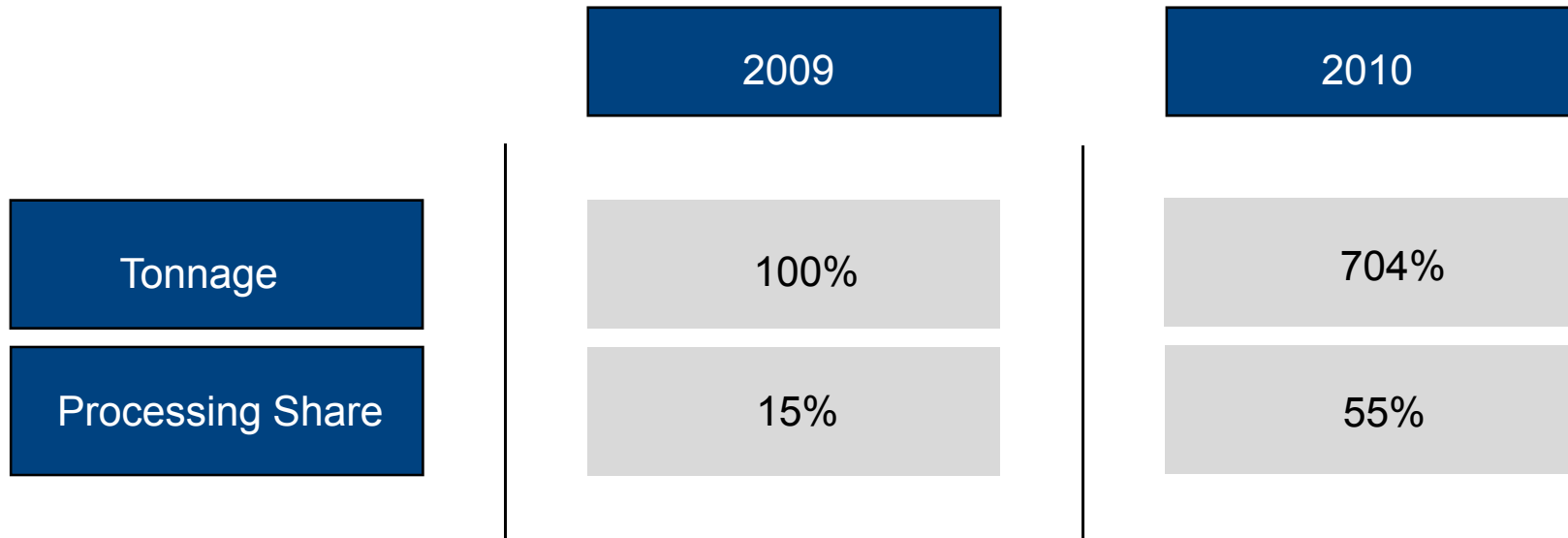
Centralized purchasing strategies

Need for integrated solutions for:

- Sourcing
- Processing
- Logistics

- Mechanical- and Plant Engineering
- Automotive incl. Commercial Vehicle
Construction
- Chemical- / Pharmaceutical Industry
- Construction and Agricultural Machinery





Started in 2009 with few target customers IKAM shows a high potential for building up strategic alliances with international focused customers and their need for a performance network



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Most important pre-condition to realize synergies within the Group is a standardized data base

- Further improvement of data consolidation by merging all countries to one SAP release ERP 6.0
 - Unified article catalogue
 - Unified supplier master data
 - Customer data maintained on country level, on the basis of a common structure
- All companies' applications are merged to one unified template (processes and master data) for all companies
 - Best in class solutions for all KlöCo countries
 - Common platform for further development of system functionalities
- To achieve an even higher data quality the creation and maintenance of material and supplier master data is centralized



Rollout of SAP ERP 6.0 template

Achieved Go Live dates

- Germany / Netherlands 01.07.2009
- Bulgaria / Romania 01.01.2010
- Poland / Czech Republic 01.07.2010
- Spain 01.07.2010

Go Live dates 2011

- Austria / Buysmetal 2011
- UK 2011
- France 2011

Planning afterwards

- Switzerland, SSC business (Germany, UK, France, Switzerland, Spain) and US



Processmanagement & IT

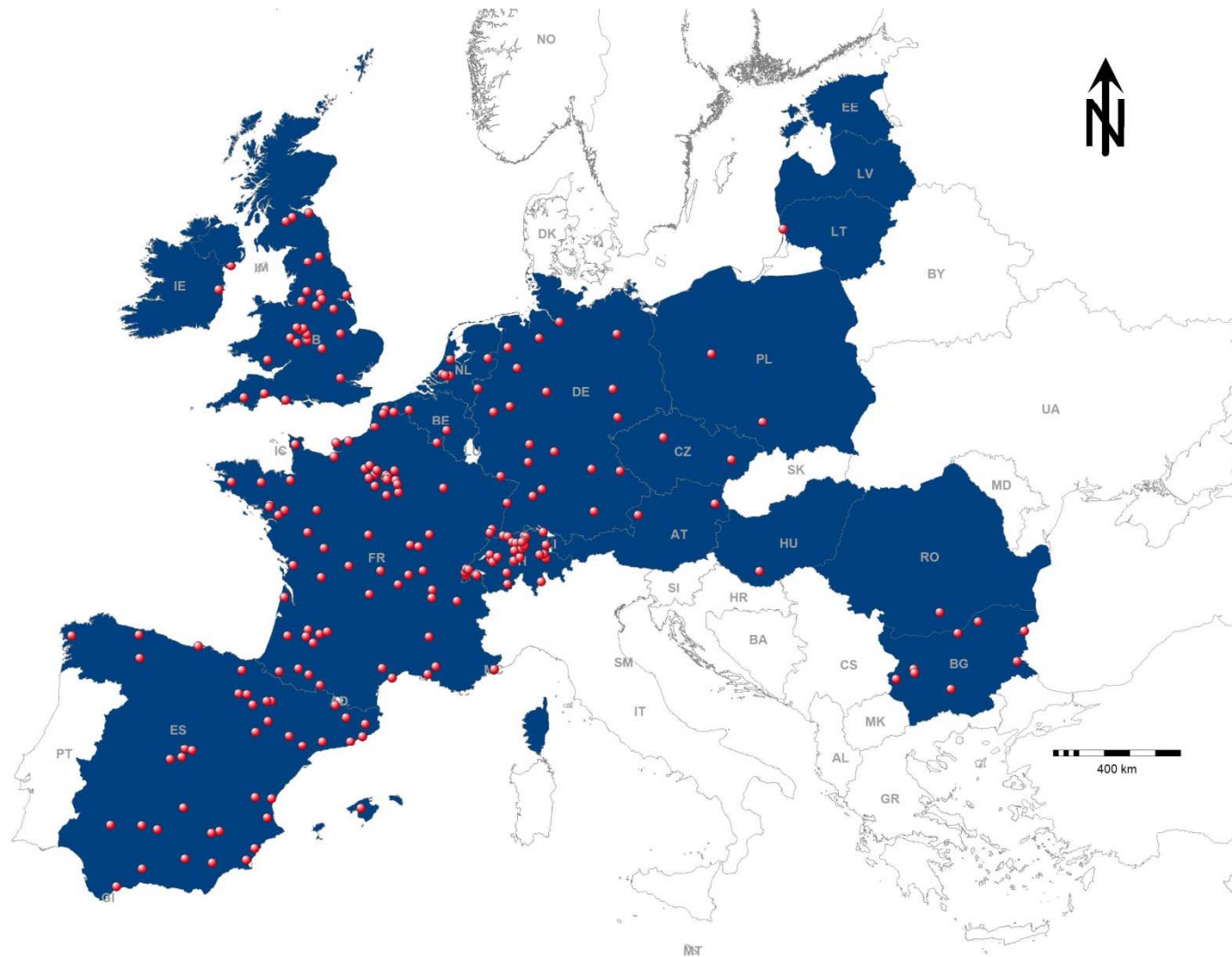
Operations Europe

Processes & IT

Network-management	Asset Strategy	Marketing coordination	IT-Strategy	SAP-application	Unification Article Structure
Responsibilities <ul style="list-style-type: none"> • Logistics • Standards (synergies) • Inventories (synergies) • Post-Merger-integration • Process standards • Quality • Security • KPI standards 	Responsibilities <ul style="list-style-type: none"> • Hardware standards • Maintenance standards • Investment in assets - purchasing 	Responsibilities <ul style="list-style-type: none"> • Market analysis • Potential analysis • Benchmarks • Trade fairs/ Exhibitions • Marketing standards 	Responsibilities <ul style="list-style-type: none"> • IT standards • IT security • Contract management • Architecture, network and communication design 	Responsibilities <ul style="list-style-type: none"> • IT projects • IT rollouts • Optimizing processes • IT quality management 	Responsibilities <ul style="list-style-type: none"> • Harmonization and maintenance of material master data • Harmonization and maintenance of creditor master data

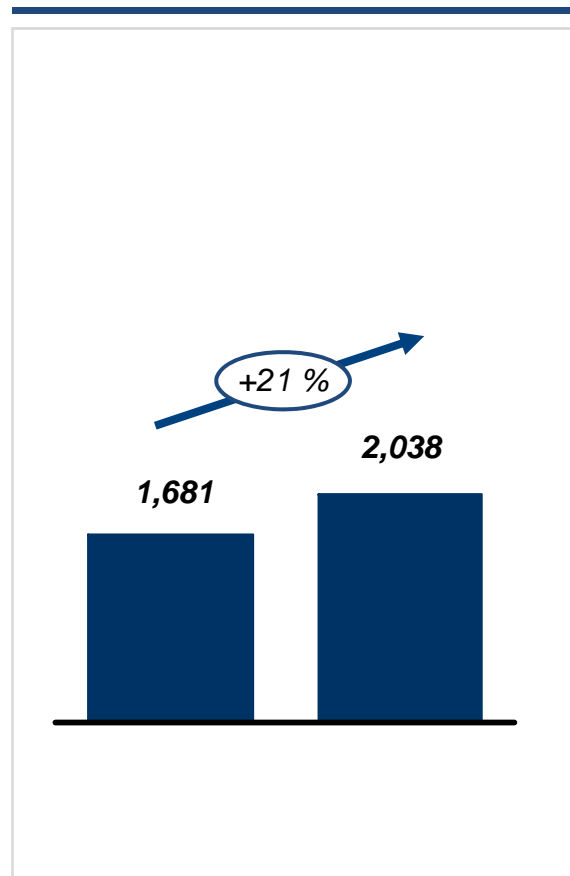


Central Business Development: Our European network has reached massive scale

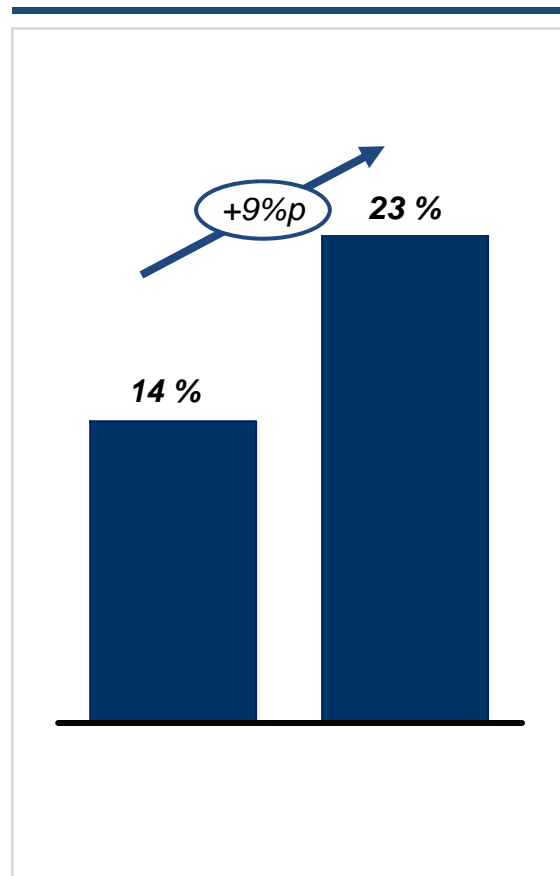


Central Business Development: Despite achieved progress, Klöckner needs to further maximize performance

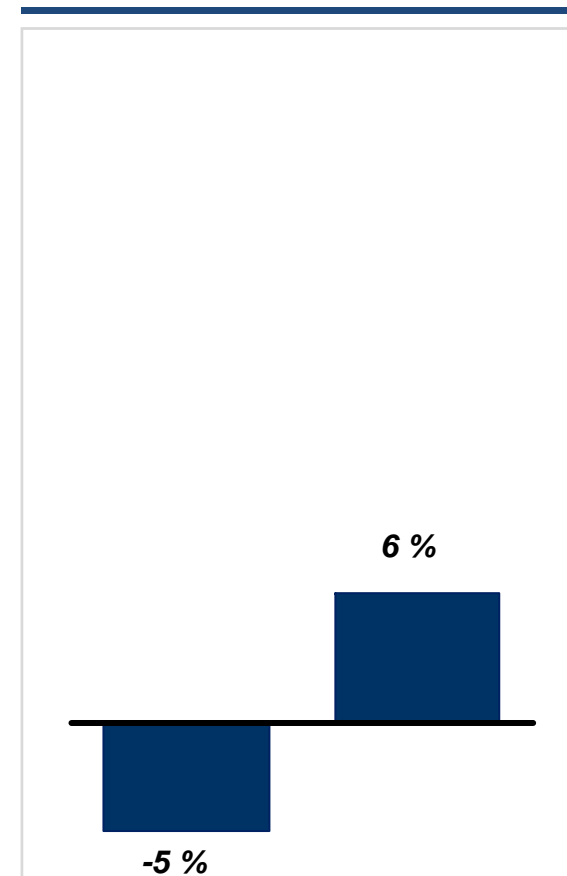
Sales Europe (€m)

H1
2009H1
2010

Gross profit margin Europe

H1
2009H1
2010

EBITDA margin Europe

H1
2009H1
2010

Operations
determine
performance
in many ways

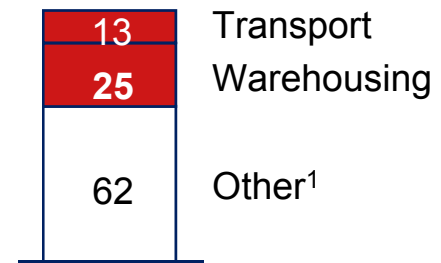
1 Customer satisfaction and sales

On-time delivery considered to be central for customer satisfaction by 93% of distribution players

2 Costs

Logistics makes up ~40% of costs after material

Cost structure, 2008
Europe, percent



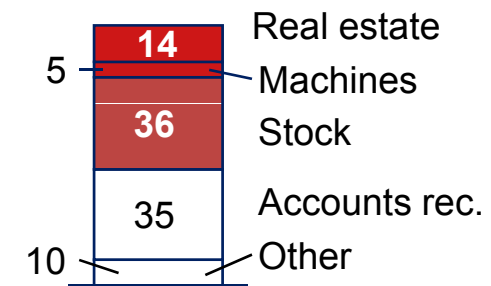
3 Working capital

Network layout determines level of inventories needed to maintain availability

4 Fixed assets

Operations determines numbers and price of machines, buildings, vehicles etc.

Asset structure, 2008
Europe, percent

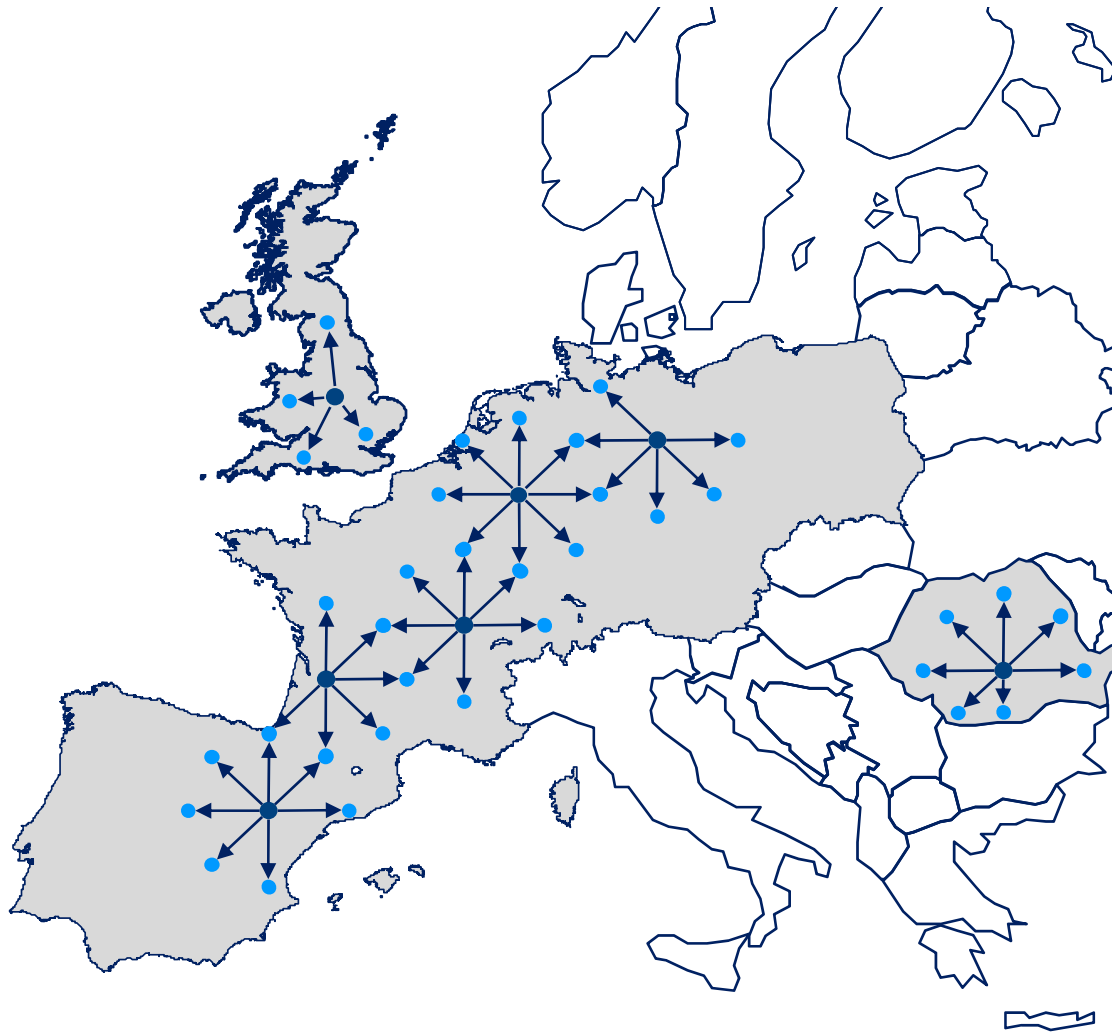


¹ Sales and administration, X-rate losses, depreciations, interest payments, debt insurances, etc.



Central Business Development: Roadmap towards maximized performance developed in three steps





Network structure

- Integrated network of **central warehouses across national borders**

Operating system and standards

- **Best practices are shared internationally**
- Proven set of solutions helps us to **achieve highest performance**

Performance management and KPIs

- A joint definition and measurement of performance **is the guiding principle of day-to-day operations**

Asset management

- Investments are perfectly aligned **with operating system**
- **Asset park is shared across European countries**



Standards

- | | |
|---------------------------------|--|
| I Organized Workflow | 1. Optimized utilization of existing infrastructure <ul style="list-style-type: none"> 1.1 Ensure one way traffic system including unloading and loading bays 1.2 Store incoming goods directly or place them in clearly assigned locations for incoming goods 1.3 Locate fast movers at close distance to shipping point 1.4 Locate material according to loading sequence 1.5 Place pre-picked goods in clearly assigned loading areas |
| II Time Slots | 2. Implement clear and transparent time slot management |
| III Optimized Processing | 3. Maximize the processing efficiency |
| IV Planned Handling | 4. No single site without standard for picking & packing planning |
| V Efficient Transport | 5. No single site without standard transport planning and cost monitoring activities |



Standards

VI Preventive Maintenance

6. Implement Planned Preventive Maintenance (PPM) with R.O.I approach



VII Empowered People

7. Deployment and focusing of resources to work demand



VIII Supportive IT-Systems

8. New SAP 6.0 with full “Operationally Efficient” performance



IX Visual Management

9. Implement intuitive visualization

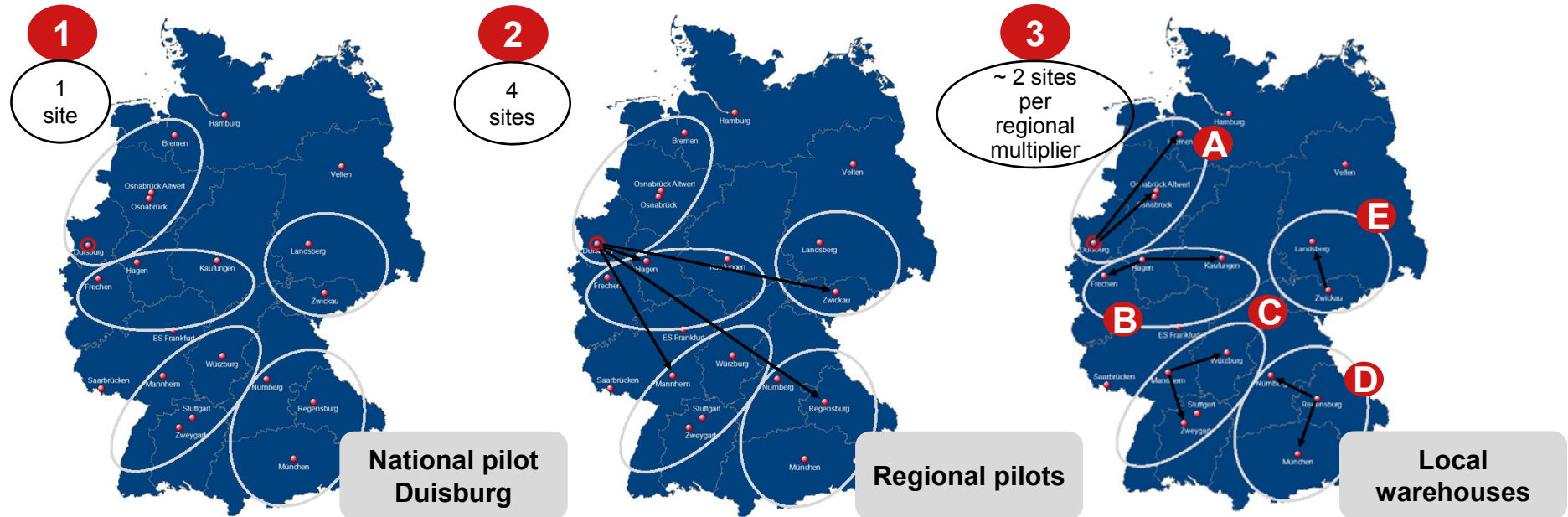


X Co-ordinate Procurement

10. Co-ordinate consumable procurement management to reduce costs



Central Business Development: Example for Implementation of "The 10 Commandments"



Approach and road map
Jun. - Jul. 2010:

- Estimate number and clarify sources of resources

Communication principles
May - Jul. 2010:

- Inform all warehouse managers about targets and timeline

Aug. - Sep. 2010:

- Invite regional pilot leaders for a 2 day workshop in Duisburg

Approach and road map
Sep. - Dec. 2010:

- Osnabrück, Mannheim, Regensburg

Aug. 2010 – Feb. 2011:

- Hagen, Frechen

Communication principles
Sep. - Dec. 2010:

- Organize regional trainings with participants of all warehouses

Approach and road map

- A** Step 2*: Bremen
- B** Step 3**: Kassel
- C** Step 2: Ehningen, Step 3: Würzburg
- D** Step 2: München, Step 3: Nürnberg
- E** Step 2: Zwickau, Step 3: Landsberg

Communication principles
Sep. 2010 - Aug. 2011:

- Organize regular visits of multipliers at the warehouses in order to ensure the aligned procedure

* Step 2: Dec. 2010 - Mar. 2011
** Step 3: Feb. - Jun. 2011



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Sourcing

- Additional key mills for automotive application
- Pricing transparency spot / contract
- Bonus opportunities
- Supply chain opportunities

Stocking

- Coil central stock $\leq 4\text{mm}$ (KSM/ODS)
- Reduction in working capital
- Opportunities in size extension
- Upgrading of stocking/SSC-facilities acc. to Becker standards

Selling

- Roll out of Becker's automotive contracts (CdL, KDI)
- Harmonized KAM (KSM, ODS, CE)
- Cross Selling
- Fixed-formats
- Slit-coils

Processing

- Integration of supply chain
- Roll out Automotive Standards
- Taylor made products / solutions

Logistics

- Opportunities in transport cost
- Direct shipments



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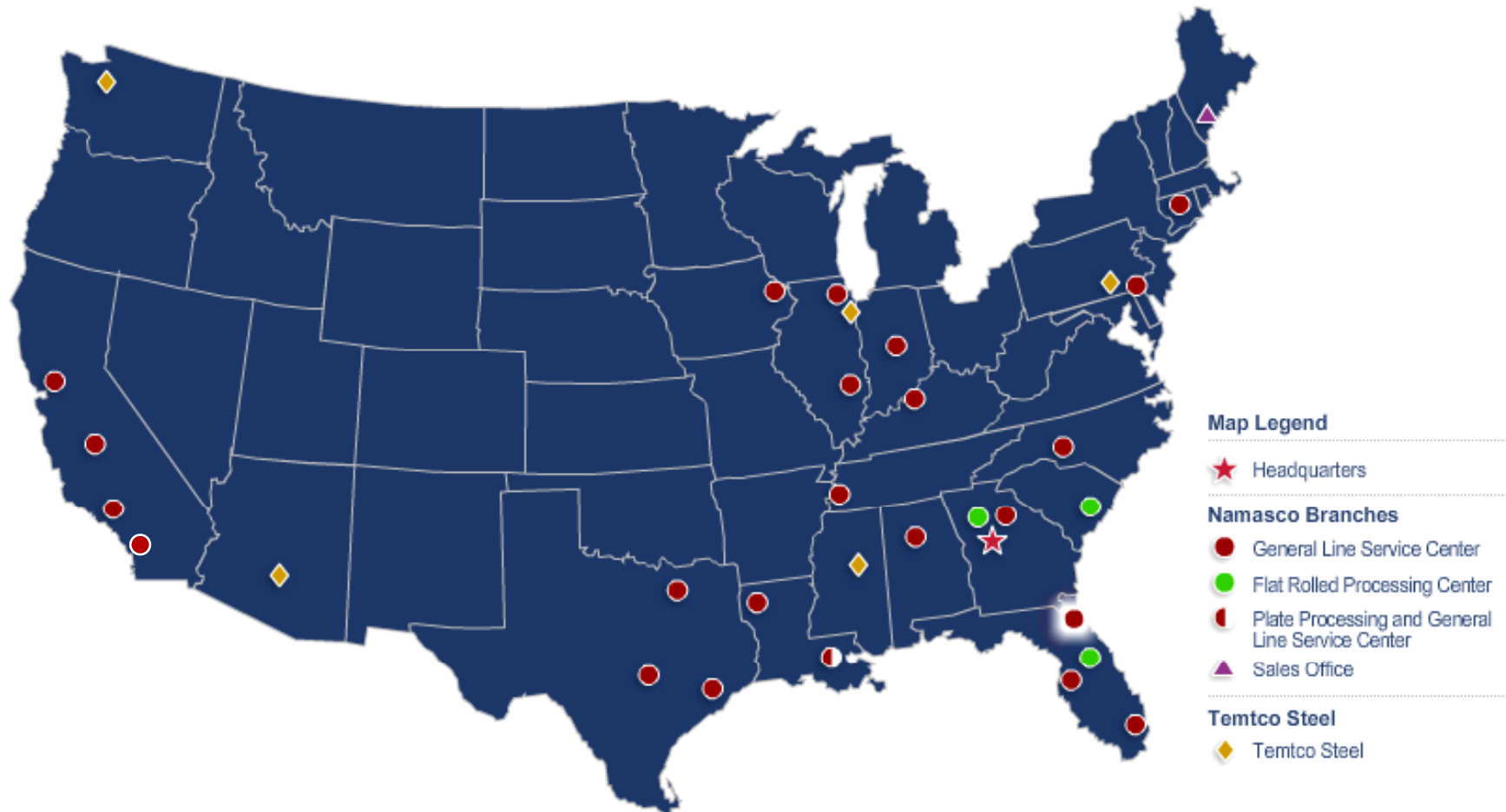
04 Update USA

05 Wrap-Up



1975	1976	1984	1985	1991	1992	1994
Houston, TX General line	New Orleans, LA General line	Jacksonville, FL General line Pompano Beach, FL General line Tampa, FL General line	Birmingham, AL General line	Atlanta, GA General line	Charlotte, NC General line Dalles, TX General line Alpharetta, GA Flat Rolled Ocoee, FL Flat Rolled	Austin, TX General line
1995	1997	1999	2006	2007	2008	2010
Dubuque, IA General line	Charleston, SC Flat Rolled	August Headquarters moved to Atlanta, GA	June IPO Frankfurt Exchange October Action Steel Indianapolis, IN Louisville, IL	May Primary Steel Chicago, IL Middletown, CT New Castle, DE Oakland, CA Santa Fee Springs, CA Tulare, CA West Memphis, AR Premier Steel Shreveport, LA September Scan Steel Jeffersonville, IN	May Temtco Steel Louisville, MS Apache Junction, AZ Tumwater, WA Chicago, IL York, PA	Sep Angeles Steel Los Angeles, CA





Projects	Goal
Higher utilization of processing equipment	Increase gross profit per ton on all processed tons.
Inventory aging	To reduce 50% of aged inventory based on the Klöckner Aging Inventory Policy.
LP Expansion at selected branches	To include long products in Primary (acquisition) branches that have not historically sold these products.
C & D pricing	A minimum pricing strategy will be adopted for our C & D accounts. It is our aim, that all the salespeople achieve a specified GP/ Ton figure for all sales to those customers.
Vendor discounts	To start taking vendor discounts again when offered discounted terms.
Branch consolidation	To consolidate Jacksonville, FL with Tampa, FL. Second half of the year will consolidate Apache Junction, AZ with Santa Fe Springs, CA.



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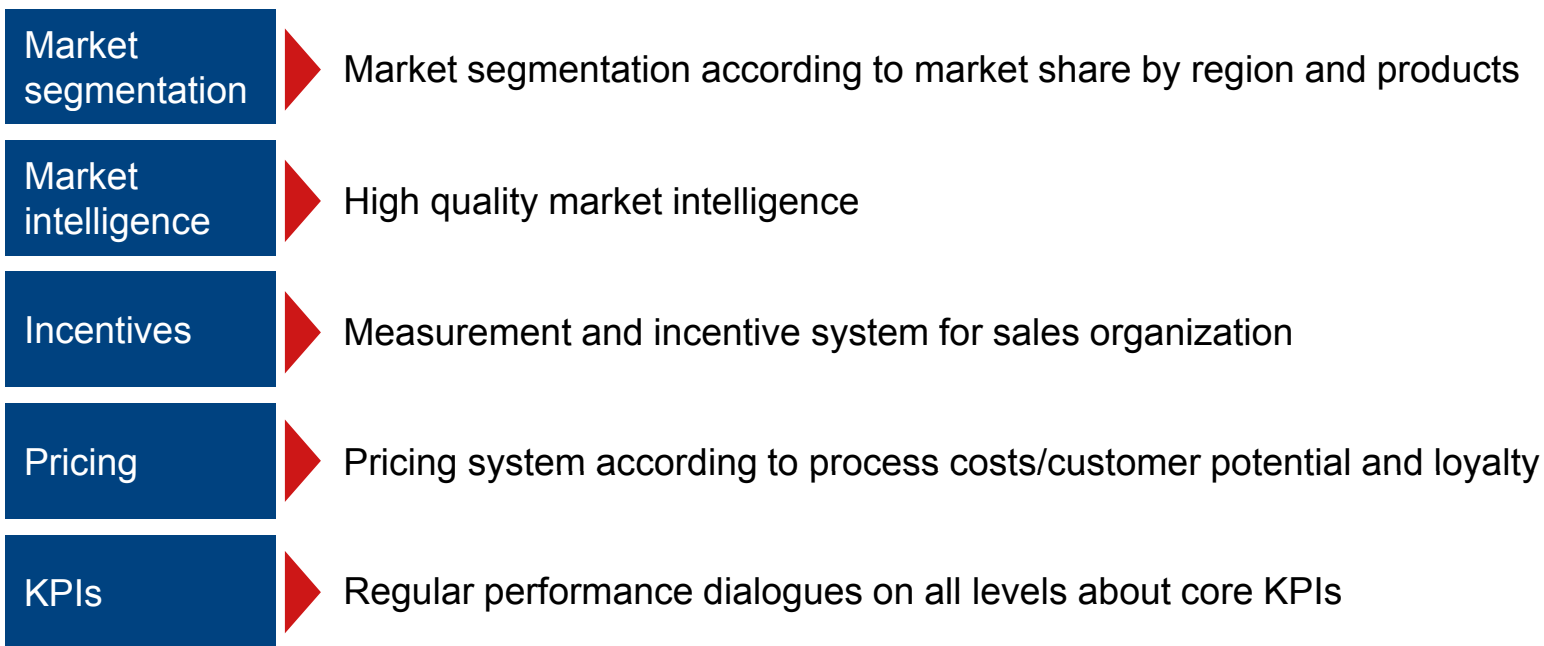
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- From “distribute into growing market” to “push to gain customers and market share”
 - From allocation of growing volumes to competing for lower volumes
 - From mainly rising prices to a more unsecure price environment
 - From demand greater than supply to oversupply

Approach to strengthen customer focus



Product range

▶ Expanding the share mainly in the area of higher margin products focusing on Sheets, Plates, Hollow Sections, Tubes, Alu and Stainless

Value added services

▶ Stronger focus on value added services for industrial customer segments

White spots

▶ Filling white spots in existing countries



Purchasing

- Development of corporate product strategies linked to country strategies
- Further optimization of leverage possibilities
- Improvement of qualification of purchasing managers

Inventory management

- Integrated stock-/sales-forecast system
- Extended access of warehouses to European inventory

Distribution network

- Development of central stocks for special products on cross country level
- Definition and roll out of best practice operating processes and systems
- Management by uniform operational key performance indicators
- Improved and more standardized management of operational fixed assets

General

- Further optimization in processes and efficiency through standards



