

# Klöckner & Co

## A Leading Multi Metal Distributor

February, 2008

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CFO



# Agenda

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**1. Overview and market**

**2. Market developments Q4 2007 and expectations for 2008**

**3. Profitable growth initiatives**

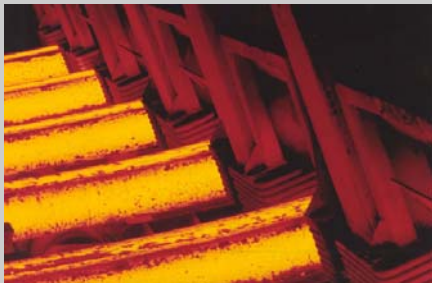
**4. Development in Q3 2007 and financials**

**Appendix**



# Klöckner & Co at a glance

## Producer



## Klöckner & Co

Products:



Services:



### Klöckner & Co highlights

- Leading producer-independent steel and metal distributor in the European and North American markets combined
- Distribution network with approx. 250 warehouses in Europe and North America
- About 10,000 employees
- Key financials **FY 2007 (preliminary)**
  - Sales: €6,300 million
  - EBITDA: €365 million

## Customer



Construction:

- Structural Steelwork
- Building and civil engineering



Machinery/  
Mechanical  
Engineering

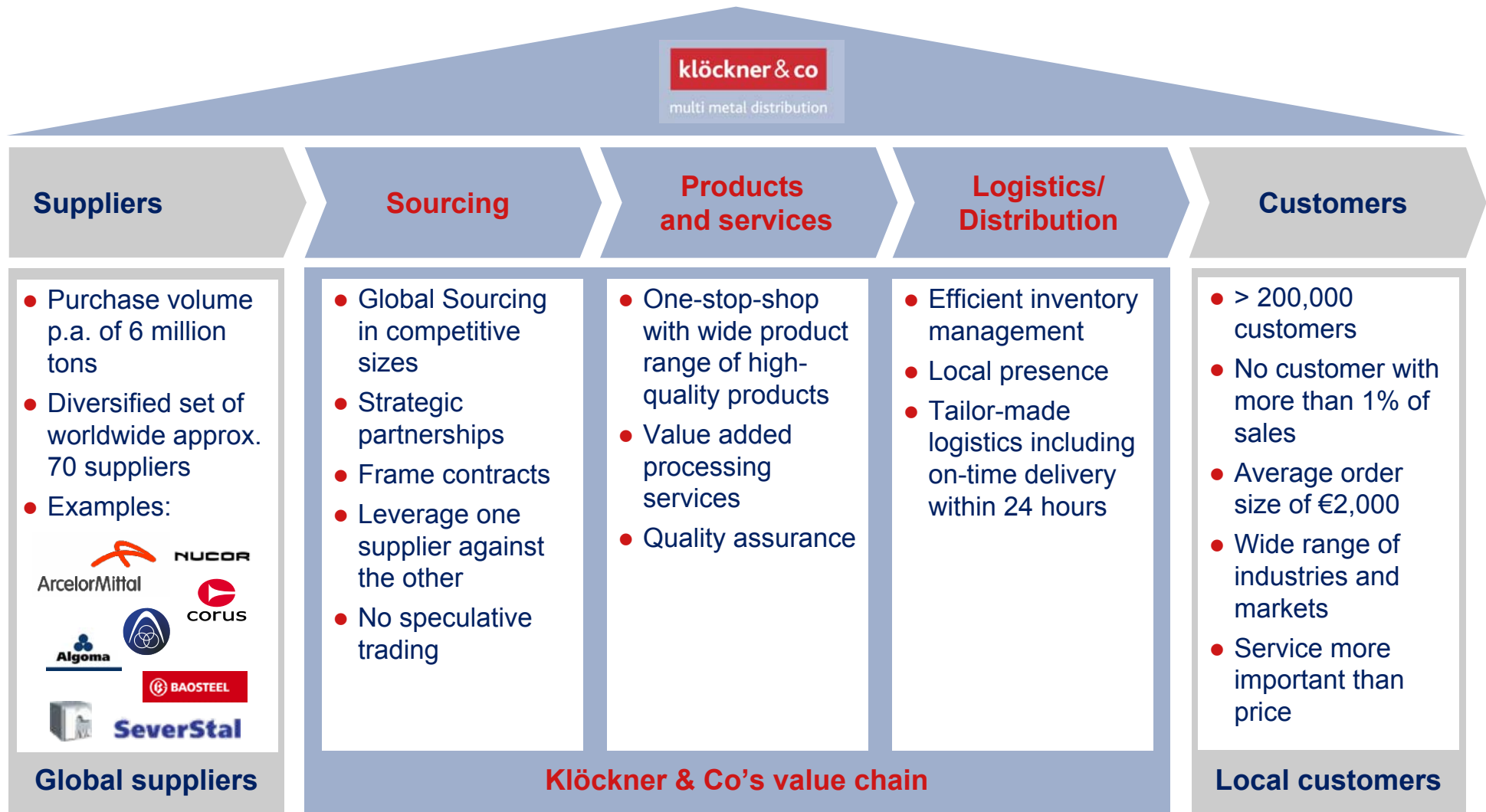


Others:

- Automotive
- Metal products/  
goods, installation
- Durable goods
- etc.

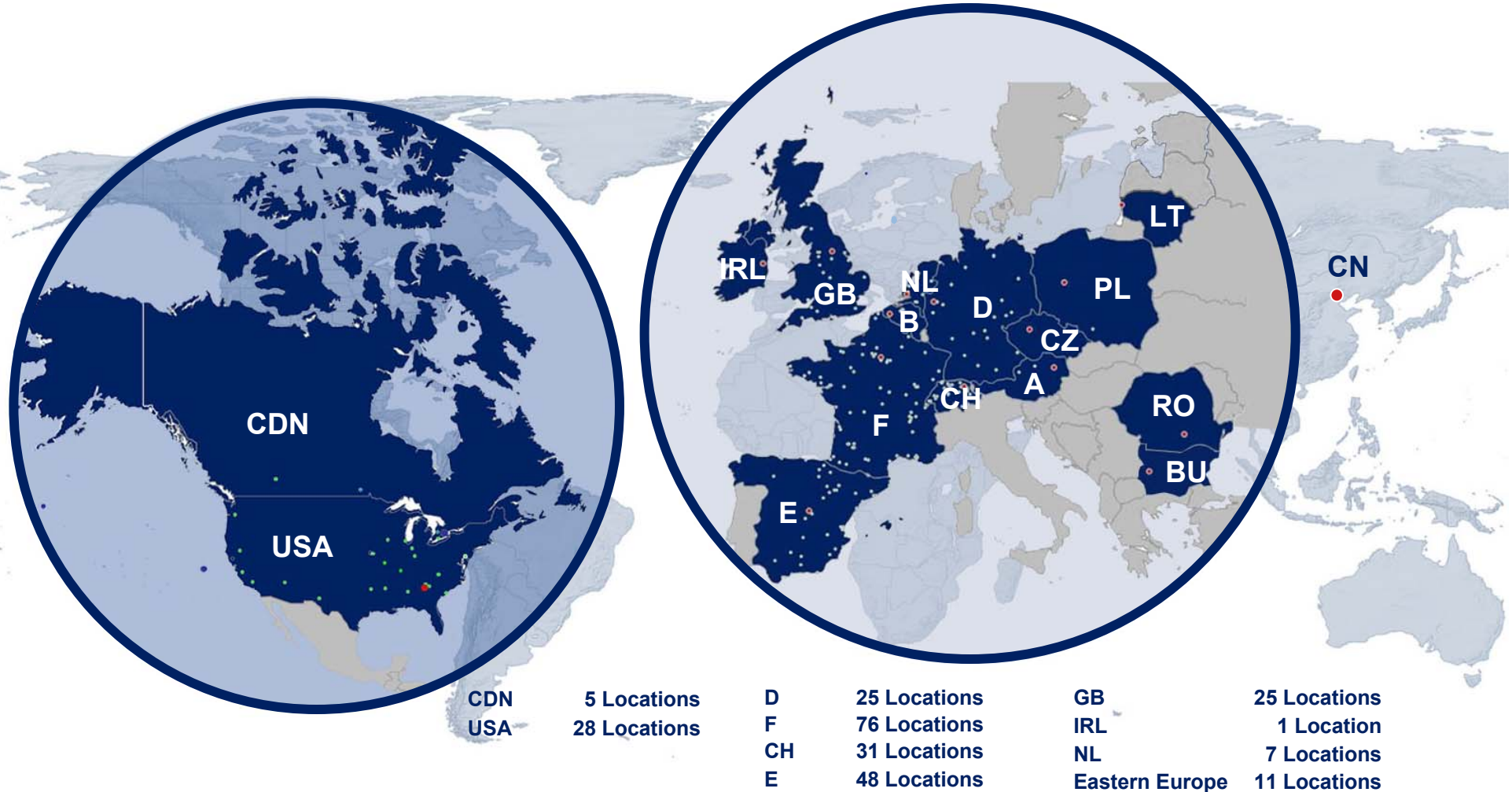


# Distributor in the sweet spot



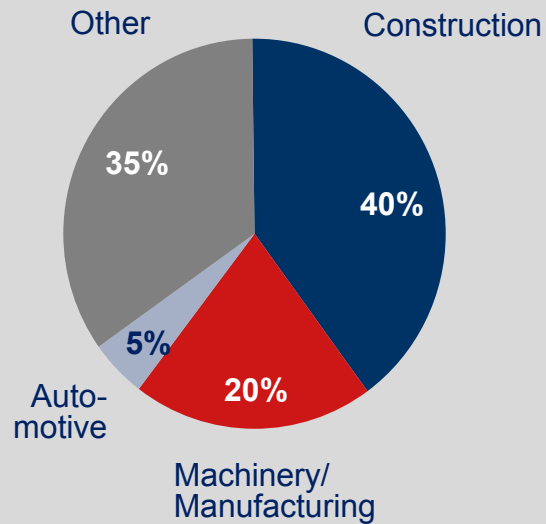
# Global reach with broad product and customer diversification

About 250 locations



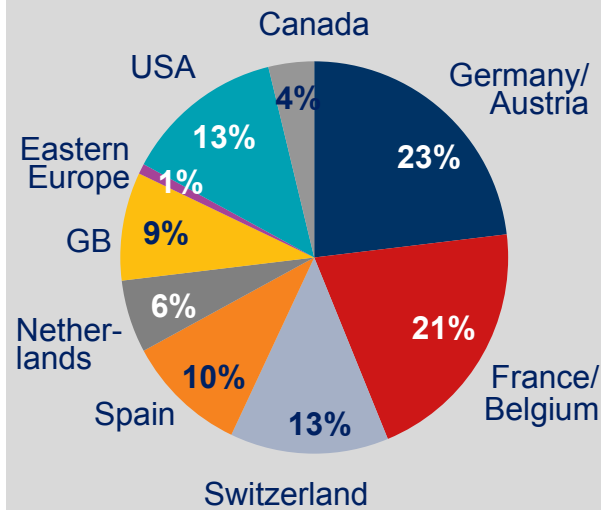
# Global reach with broad product and customer diversification

## Sales split by industry\*



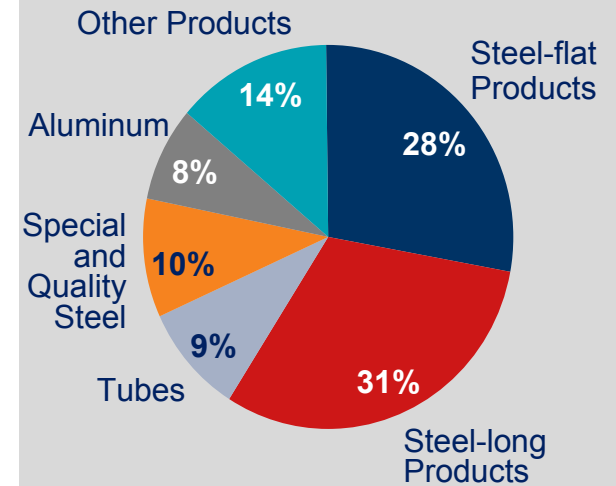
\*as of 2006

## Sales split by markets\*



\*as of November 2007

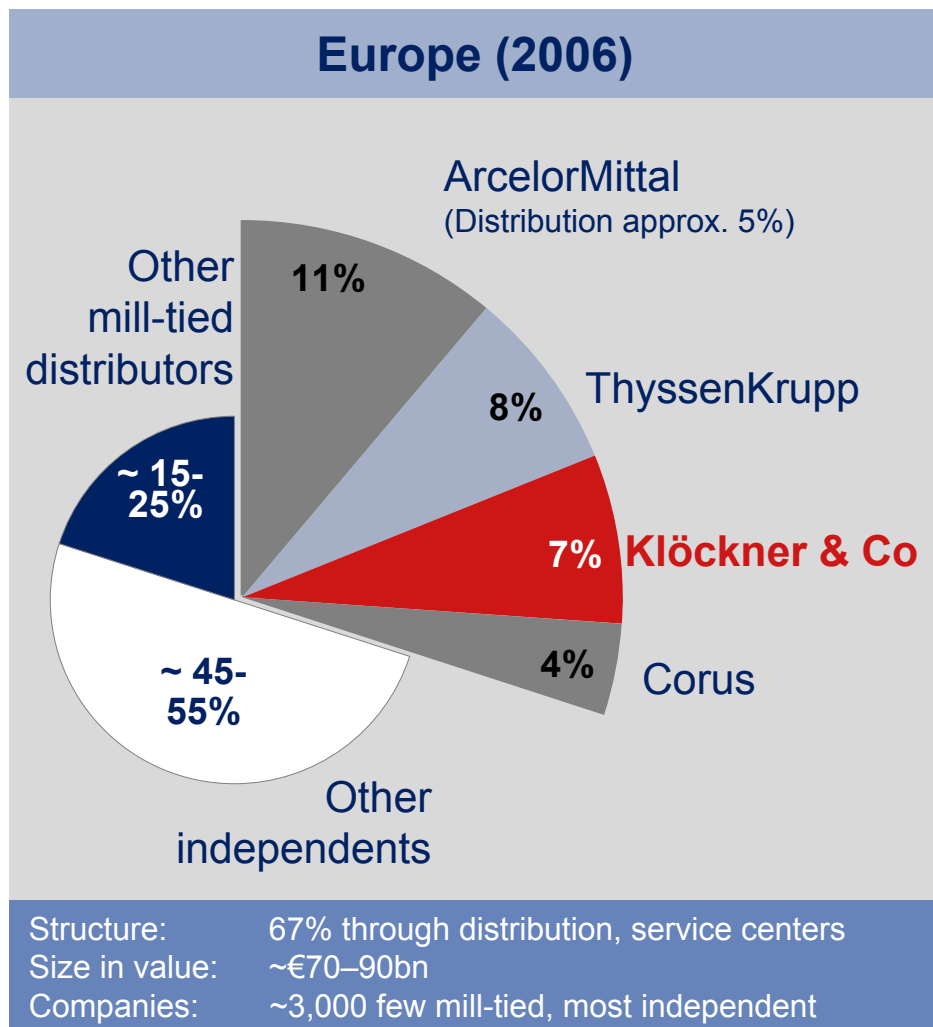
## Sales split by product\*



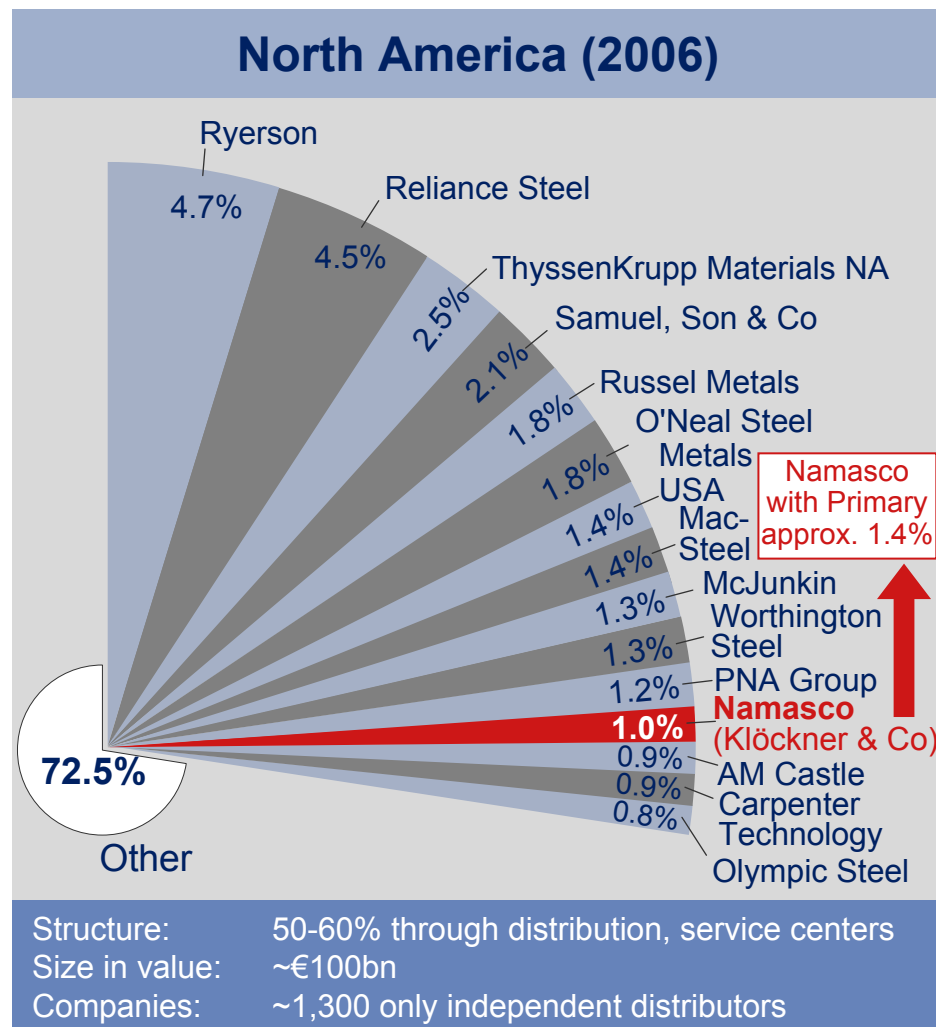
\*as of 2006



# Strong position in Europe; Acquisition of Primary significantly improved position in NA



Source: EuroMetal, company reports, own estimates



Source: Purchasing Magazine (May 2007)



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**Appendix**



# Market developments Q4 2007

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## Q4 2007

- Europe
  - Slight improvement in stock levels
  - Overall healthy sales activity, without being strong
  - Prices remained flat
- North America
  - Further declining imports
  - Completion of the most recent phase of destocking
  - Relatively soft demand for flat, stronger for long products
  - Moderate price recovery

**Market developments in Q4 2007 in line with Klöckner & Co's expectations**



# Market expectations for H1 2008

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## H1 2008

- Europe
  - Back to normal stock levels due to declining imports
  - Overall healthy underlying demand
  - Prices overall expected to increase beginning by the end of Q1
- North America
  - Historical low stock levels and imports
  - Slight improvement of underlying demand
  - Overall increasing price levels

**Promising start in 2008 expected, especially in North America**



# Market expectations for FY 2008

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## FY 2008

- Rising steel prices in 2008 due to expected raw material hikes (iron ore and coking coal); price increases already announced by producers
- Expected increase of apparent steel use in EU-27 1.4%, other Europe 5.7% and North America 4%; World 6.8%\*
- Continuing lower imports from China because of rising raw material prices, high taxes and shipping costs, environmental and energy constraints as well as possible anti-dumping actions

\* According to International Iron & Steel Institute

**Again positive development in 2008**



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# Profitable growth

Profitable growth through value-added distribution and services within multi metals to companies in Europe and North America

Grow more than the market

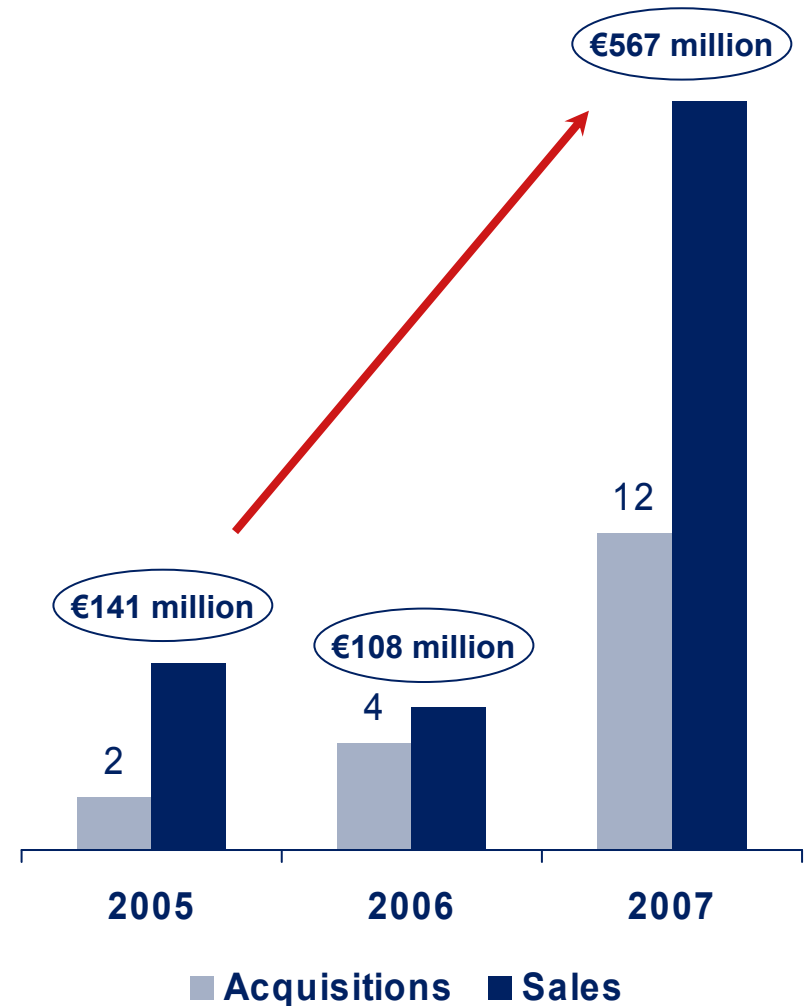
Continuous business optimization

- 1 **Acquisitions** driving market consolidation
- 2 **Organic growth and expansion** into new markets
- 3 **STAR Program:**
  - Purchasing
  - Distribution network



# 1 Accelerating number of acquisitions

Country	Acquired	Company	Sales
	Jan 2008	Multitube	€5 million
	2008 Ytd	1 acquisition	€5 million
	Sep 2007	Lehner & Tonossi	€9 million
	Sep 2007	Interpipe	€14 million
	Sep 2007	ScanSteel	€7 million
	Aug 2007	Metalsnab	€36 million
	Jun 2007	Westok	€26 million
	May 2007	Premier Steel	€23 million
	Apr 2007	Zweygart	€11 million
	Apr 2007	Max Carl	€15 million
	Apr 2007	Edelstahlservice	€17 million
	Apr 2007	Primary Steel	€360 million
	Apr 2007	Teuling	€14 million
	Jan 2007	Tournier	€35 million
	2007	12 acquisitions	€567 million
	2006	4 acquisitions	€108 million
	2005	2 acquisitions	€141 million



# Strong acquisition criteria

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## Further acquisitions in core markets and Eastern Europe:

- Leverage existing structure in core markets with small- and mid-size bolt-on acquisitions
- Large scale acquisitions when appropriate
- Acquisitions in Eastern Europe to increase footprint

## Focus on targets in 3 directions:

- Expansion of geographic reach
- Extension of customer base
- Extension of product portfolio

## Focus on targets at attractive valuations:

- EV/EBITDA multiple between 4x and 5x for smaller acquisitions
- EV/EBITDA multiple between 5x and 6x for mid-size and large scale acquisitions

## Focus on targets with significant synergy and scale effects:

- Stronger purchasing power
- Streamlining operations and processes, integrating IT
- Integration of STAR



**Accretive growth**



# Efficient acquisition process

## Approach

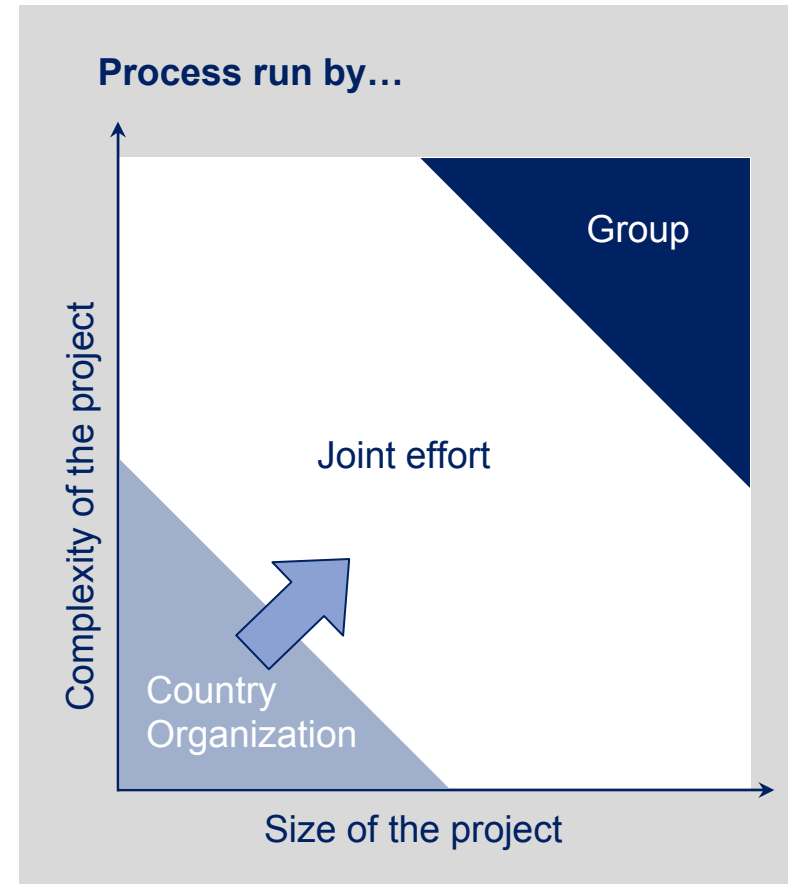
- Existing local contacts to competitors
- Pro-active contact via M&A advisors
- External contacts (seller, M&A advisors, banks, etc.)

## Selection of acquisition targets

- Targets must fulfil acquisition criteria

## Handling of acquisition projects

- Depending on size and complexity of the deal and experience of the country management the process is either run locally or led by the headquarters
- Duration of the projects between 3 to 6 months (first contact to completion)
- Due diligence is focussed on the areas of finance, sales/marketing, logistics/distribution/stocks, personnel and legal/tax/environmental



## 2 Organic growth and expansion into new markets

### Status quo

#### Expanded businesses in Eastern Europe:

- Acquisition of Metalsnab in Bulgaria
- Organic growth through Greenfield approach, e.g. South of Poland and Romania
- Evaluation of market entry in other countries

### Next steps

#### Expansion of strong market positions in core markets:

- Selective extension of product range
- Increase value-added services through investments in new processing capacity
- Further acquisitions and opening of new branches in Eastern Europe

#### Strategy

Leveraging existing distribution network

#### Benefits

Sustainable profitable growth



### 3 STAR: Status quo Q3/9M 2007 and next steps

#### Status quo

##### Purchasing

- Additional frame contracts with main suppliers
- Extended global sourcing for third party countries
- Implementation of new organization in Germany (January 1, 2007) almost completed
- Implementation of a software supporting sales and stock management

##### Distribution network

- Improved performance as a result of restructured distribution network (warehouses)
- Start of roll-out of the optimization tool “ProDacapo” (activity based costing) in Spain, UK, France and Eastern European Countries

#### Next steps

- Establish European sourcing (STAR Phase II)
- Increase sourcing from world-class suppliers with structural cost advantages
- Implement unified article codes
- Further structural measures and continuous improvement of distribution network supported by “ProDacapo” (with a focus on ES, F and UK) to increase average EBITDA margins and reduce NWC funding requirements
- Finalize implementation of SAP throughout the European organization (France, Switzerland) and interface SAP with “ProDacapo”



# STAR: Phase I finalized in 2008, further potential in phase II

## Phase I (2005 - 2008)

### Overall targets:

- Central purchasing on country level, especially in Germany
- Improvement of distribution network
- Improvement of inventory management

### Upside potential

2006:	~ €20 million	✓
(9M 2007	~ €39 million)	✓
2007:	~ €40 million	
2008:	<u>~ €20 million</u>	
	<b>~ €80 million</b>	

## Phase II (2008 onwards)

### Overall targets:

- European Sourcing
- Ongoing improvement of distribution network

### Upside potential

2008	~ €10 million
2009:	~ €30 million
2010:	<u>~ €20 million</u>
	<b>~ €60 million</b>



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## Summary income statement Q3/9M 2007

(€m)	Q3 2007	Q3 2006	Δ%	9M 2007	9M 2006	Δ%
<b>Volume (Ttons)</b>	<b>1,601</b>	<b>1,467</b>	<b>+9.1</b>	<b>4,893</b>	<b>4,674</b>	<b>+4.7</b>
<b>Sales</b>	<b>1,583</b>	<b>1,394</b>	<b>+13.6</b>	<b>4,783</b>	<b>4,134</b>	<b>+15.7</b>
<b>Gross profit</b>	<b>286</b>	<b>313</b>	<b>-8.6</b>	<b>921</b>	<b>914</b>	<b>+0.7</b>
<i>% margin</i>	18.0	22.5	-20.0	19.2	22.1	-13.1
<b>EBITDA</b>	<b>93</b>	<b>143</b>	<b>-34.7</b>	<b>288</b>	<b>325</b>	<b>-11.5</b>
<i>% margin</i>	5.9	10.3	-42.7	6.0	7.9	-24.1
<b>EBIT</b>	<b>76</b>	<b>128</b>	<b>-40.7</b>	<b>242</b>	<b>282</b>	<b>-14.3</b>
Financial result	-17	-24	-	-80	-52	-
<b>Income before taxes</b>	<b>59</b>	<b>105</b>	<b>-</b>	<b>162</b>	<b>230</b>	<b>-</b>
Income taxes	-14	-20	-	-47	-55	-
Minority interests	8	8	-	19	23	-
<b>Net income</b>	<b>37</b>	<b>76</b>	<b>-</b>	<b>96</b>	<b>152</b>	<b>-</b>
<b>EPS €</b>	<b>0.79</b>	<b>1.64</b>	<b>-</b>	<b>2.07</b>	<b>3.27</b>	<b>-</b>
<b>Diluted EPS €</b>	<b>0.78</b>	<b>1.64</b>	<b>-</b>	<b>2.07</b>	<b>3.27</b>	<b>-</b>



# Underlying EBITDA 9M 2007

(€m)	9M 2007	9M 2006	Δ
<b>EBITDA as reported</b>	<b>288</b>	<b>325</b>	<b>-37</b>
<ul style="list-style-type: none"> <li>• One-offs (mainly sale real estate)</li> </ul>	33	40	-7
<b>Operating EBITDA</b>	<b>255</b>	<b>286</b>	<b>-30</b>
<ul style="list-style-type: none"> <li>• Windfall effects               <ul style="list-style-type: none"> <li>• carbon and others</li> <li>• stainless</li> </ul> </li> <li>• Exchange rate effects</li> <li>• Special expense effects</li> </ul>	-	-35	+35
	13	-15	+28
	7	-1	+8
	18	5	+13
<b>Underlying EBITDA</b>	<b>292</b>	<b>240</b>	<b>+52</b>
<ul style="list-style-type: none"> <li>• Acquisitions (LTM*)</li> </ul>	-18	-5	-13
<b>Underlying EBITDA excluding Acquisitions</b>	<b>274</b>	<b>235</b>	<b>+39</b>

\* LTM: Last twelve months

**Strong underlying EBITDA improvement driven by STAR**



# Revised guidance for 2007 due to weaker development in H2

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- Overall lower margins than expected, especially for stainless
- Unlike previous year, no stock gains at all
- Volumes satisfactory but partially lower than expected
- Additional negative effects because of weaker USD and CHF

## Revised guidance for 2007

- Reported EBITDA approximately 10% below the reported 2006 level of €395 million (including one-offs in each case)

**Preliminary results above revised guidance of October 2007**



## General financial targets/limits and guidance

	General target/limit	Actual 9M 2007
Underlying sales growth	> 10% p.a	15.7% ✓
Underlying EBITDA margin*	> 6%	6.1% ✓
Leverage (Net financial debt/EBITDA LTM)	< 3.0x	2.5x ✓
Gearing (Net financial debt/Equity)	< 150%	108% ✓

\* According to new definition

**Challenging financial targets throughout the cycle**



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Current shareholder structure



# Financial calendar 2008 and contact details

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## Financial calendar 2008

<b>May 15:</b>	<b>Q1 Interim Report</b>
June 20:	Annual General Meeting
August 14:	Q2 Interim Report
October 14/15:	Capital Market Days
November 14:	Q3 Interim Report

## Contact details Investor Relations

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# Segment performance 9M 2007

(€m)	Sales 9M 07	Sales 9M 06	Δ %	EBITDA 9M 07	EBITDA 9M 06	Δ %
Europe	3,989	3,476	14.7	262	299	-12.5
North America	794	658	20.7	50	63	-21.1
HQ / Consol.	-	-	-	-24	-37	-
Total	4,783	4,134	15.7	288	325	-11.5

Comments
<ul style="list-style-type: none"> <li>● Sales for 9M 2007* in Europe including about               <ul style="list-style-type: none"> <li>- €16.1 million from Westok (UK)</li> <li>- €8.2 million together from Max Carl and Zweggart (D)</li> <li>- €7.8 million from Edelstahlservice (D)</li> <li>- €9.6 million from Teuling (NL)</li> <li>- €27.4 million from Tournier (F)</li> <li>- €6.5 million from Gauss (CH)</li> <li>- €9.1 million from Aesga (E)</li> </ul> </li> <li>● Sales for 9M 2007* in North America including about               <ul style="list-style-type: none"> <li>- €7.8 million from Premier Steel</li> <li>- €150.1 million from Primary Steel</li> <li>- €39.3 million from Action Steel</li> </ul> </li> </ul> <p>* Sales of companies acquired in the last twelve months</p>



# Balance sheet as of Sept. 30, 2007

(€m)	September 30, 2007	December 31, 2006
Long-term assets	750	579
Inventories	1,081	841
Trade receivables	1,096	933
Cash & Cash equivalents	130	130
Other assets	113	69
<b>Total assets</b>	<b>3,170</b>	<b>2,552</b>
Equity	813	799
Total long-term liabilities	1,221	744
- thereof financial liabilities	881	416
Total short-term liabilities	1,136	1,009
- thereof trade payables	716	639
Other liabilities	-	-
<b>Total equity and liabilities</b>	<b>3,170</b>	<b>2,552</b>
<b>Net working capital</b>	<b>1,461</b>	<b>1,135</b>
<b>Net financial debt</b>	<b>877</b>	<b>365</b>

Comments
<p><b>Financial debt as of Sept. 30, 2007:</b></p> <ul style="list-style-type: none"> <li>• Syndicated loan: €175 million</li> <li>• ABS: €372 million</li> <li>• Bank borrowings: €187 million</li> <li>• Convertible: €262 million</li> <li>• Increased net financial debt due to acquisitions and higher NWC</li> </ul>
<p><b>Equity:</b></p> <ul style="list-style-type: none"> <li>• Convertible equity share: capital increase of €62 million booked</li> <li>• Decreased equity ratio from 31% to 26% due to increased total assets</li> </ul>
<p><b>Net Working Capital:</b></p> <ul style="list-style-type: none"> <li>• Increase driven by sales, higher price levels and acquisitions</li> </ul>



# Statement of cash flow

(€m)	9M 2007	9M 2006	Comments
Operating CF	253	287	<ul style="list-style-type: none"> <li>CF from operating activities impacted by high net working capital requirements</li> </ul>
Changes in net working capital	-241	-268	
Others	-63	-7	
<b>Cash flow from operating activities</b>	<b>-51</b>	<b>12</b>	<ul style="list-style-type: none"> <li>Investing cash flow in Q3 2007 mainly impacted by cash outflow for the various acquisitions and increased stake in Swiss Holding</li> </ul>
Inflow from disposals of fixed assets/others	20	101	
Outflow from investments in fixed assets	-386	-41	<ul style="list-style-type: none"> <li>Equity component of the convertible bond: 62€ million (2006: capital increase for IPO)</li> </ul>
<b>Cash flow from investing activities</b>	<b>-366</b>	<b>60</b>	
Proceeds from capital increase	62	98	<ul style="list-style-type: none"> <li>Net interest payments including one-off pre-redemption fees for high yield bond</li> </ul>
Changes in financial liabilities	463	-73	
Net interest payments	-61	-26	
Dividends	-45	-6	<ul style="list-style-type: none"> <li>Net interest payments including one-off pre-redemption fees for high yield bond</li> </ul>
<b>Cash flow from financing activities</b>	<b>419</b>	<b>-7</b>	
<b>Total cash flow</b>	<b>0</b>	<b>65</b>	



# Quarterly results and FY results 2006/2005

(€m)	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006	FY 2006	FY 2005*
<b>Volume (Ttons)</b>	<b>1,601</b>	<b>1,663</b>	<b>1,629</b>	<b>1,453</b>	<b>1,467</b>	<b>1,605</b>	<b>1,601</b>	<b>6,127</b>	<b>5,868</b>
<b>Sales</b>	<b>1,583</b>	<b>1,650</b>	<b>1,550</b>	<b>1,398</b>	<b>1,394</b>	<b>1,418</b>	<b>1,323</b>	<b>5,532</b>	<b>4,964</b>
<b>Gross profit</b>	<b>286</b>	<b>328</b>	<b>307</b>	<b>294</b>	<b>313</b>	<b>316</b>	<b>285</b>	<b>1,208</b>	<b>987</b>
<i>% margin</i>	<i>18.0</i>	<i>19.8</i>	<i>19.8</i>	<i>21.0</i>	<i>22.5</i>	<i>22.3</i>	<i>21.5</i>	<i>21.8</i>	<i>19.9</i>
<b>EBITDA</b>	<b>93</b>	<b>103</b>	<b>92</b>	<b>70</b>	<b>143</b>	<b>104</b>	<b>79</b>	<b>395</b>	<b>197</b>
<i>% margin</i>	<i>5.9</i>	<i>6.2</i>	<i>5.9</i>	<i>4.9</i>	<i>10.3</i>	<i>7.3</i>	<i>6.0</i>	<i>7.1</i>	<i>4.0</i>
<b>EBIT</b>	<b>76</b>	<b>87</b>	<b>78</b>	<b>55</b>	<b>128</b>	<b>89</b>	<b>64</b>	<b>337</b>	<b>135</b>
Financial result	-17	-52	-10	-12	-24	-14	-14	-64	-54
<b>Income before taxes</b>	<b>59</b>	<b>35</b>	<b>68</b>	<b>43</b>	<b>105</b>	<b>75</b>	<b>50</b>	<b>273</b>	<b>81</b>
Income taxes	-14	-12	-22	16	-20	-22	-13	-39	-29
Minority interests	8	4	6	5	8	9	6	28	16
<b>Net income</b>	<b>37</b>	<b>19</b>	<b>40</b>	<b>54</b>	<b>76</b>	<b>45</b>	<b>31</b>	<b>206</b>	<b>36</b>
<b>EPS (in €)</b>	<b>0.79</b>	<b>0.41</b>	<b>0.86</b>	<b>1.16</b>	<b>1.64</b>	<b>0.97</b>	-	<b>4.44</b>	-
<b>Diluted EPS (in €)</b>	<b>0.78</b>	-	-	-	-	-	-	-	-

\* Pro-forma consolidated figures for FY 2005, without release of negative goodwill of €139 million and without transaction costs of €39 million, without restructuring expenses of €17 million (incurred Q4) and without activity disposal of €1,9 million (incurred Q4).



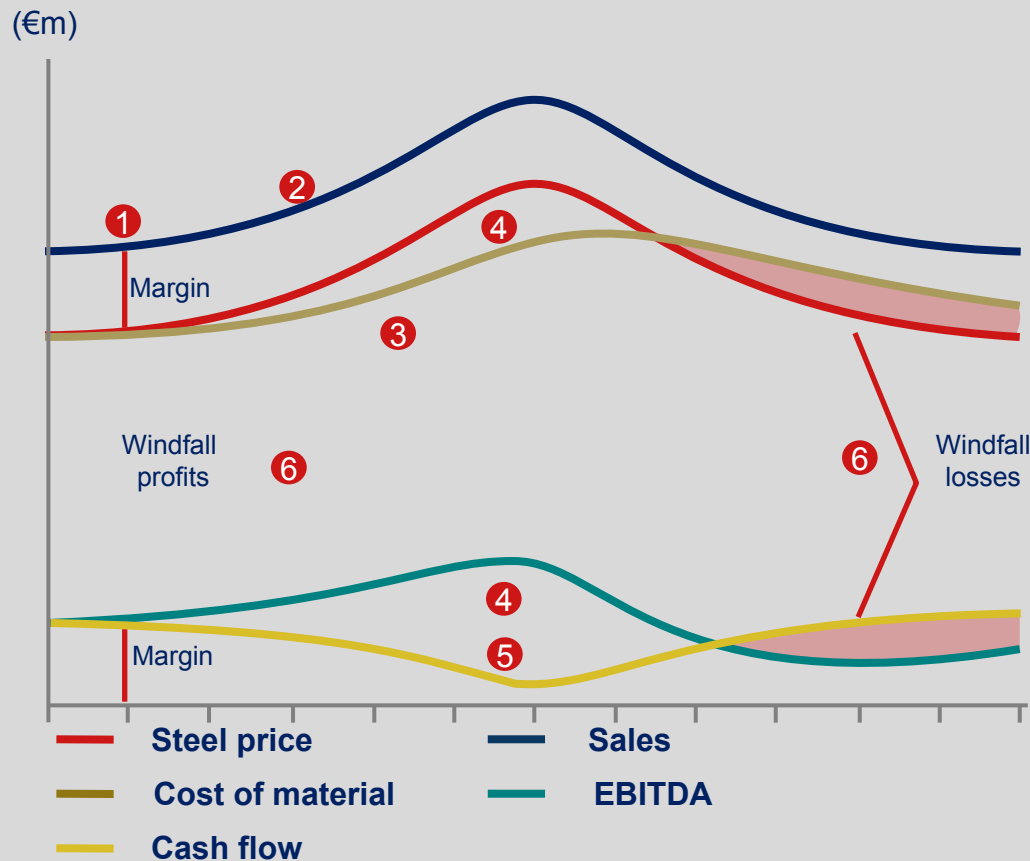
## Debt facilities

(€m)	Old debt structure	Change in debt structure	New debt structure
ABS Europe	380	+40	420
ABS USA	60	+30	90
<b>Total</b>	<b>440</b>	<b>+70</b>	<b>510</b>
Syndicated loan	-	+600	600
Bilateral credit agreements	480	-100	380
<b>Total senior bank facilities</b>	<b>480</b>	<b>+500</b>	<b>980</b>
<b>Convertible bond</b>	<b>-</b>	<b>+325</b>	<b>325</b>
<b>High yield bond</b>	<b>170</b>	<b>-170</b>	<b>-</b>
<b>Total facilities</b>	<b>1,090</b>	<b>+725</b>	<b>1,815</b>



# Steel cycle and EBITDA/cash flow relationship

## Theoretical relationship\*



\*Assuming stable inventory volumes

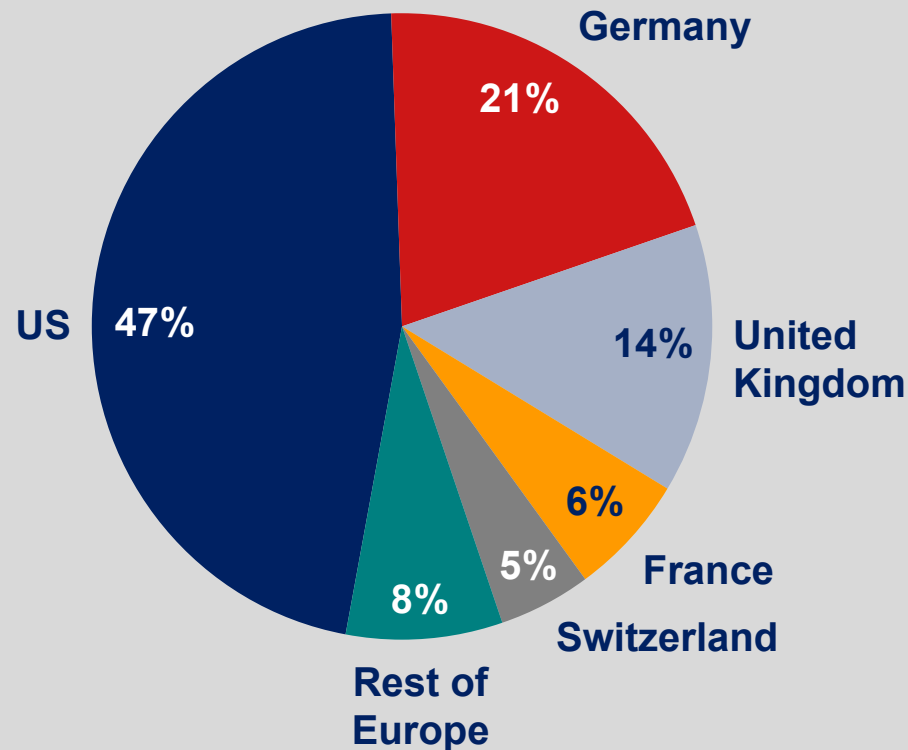
## Comments

- ❶ Klöckner & Co buys and sells products at spot prices generally
- ❷ Sales increase as a function of the steel price inflation environment
- ❸ Cost of material are based on an average cost method for inventory and therefore lag the steel price increase
- ❹ This time lag creates accounting windfall profits (windfall losses in a decreasing steel price environment) inflating (deflating) EBITDA
- ❺ Assuming stable inventory volume cash flow is impacted by higher NWC needs
- ❻ The windfall profits (losses) are mirrored by inventory book value increases (decreases)



# Current shareholder structure

## Geographical breakdown of identified institutional investors



Source: Survey Thomson Financial (as of Nov. 07)

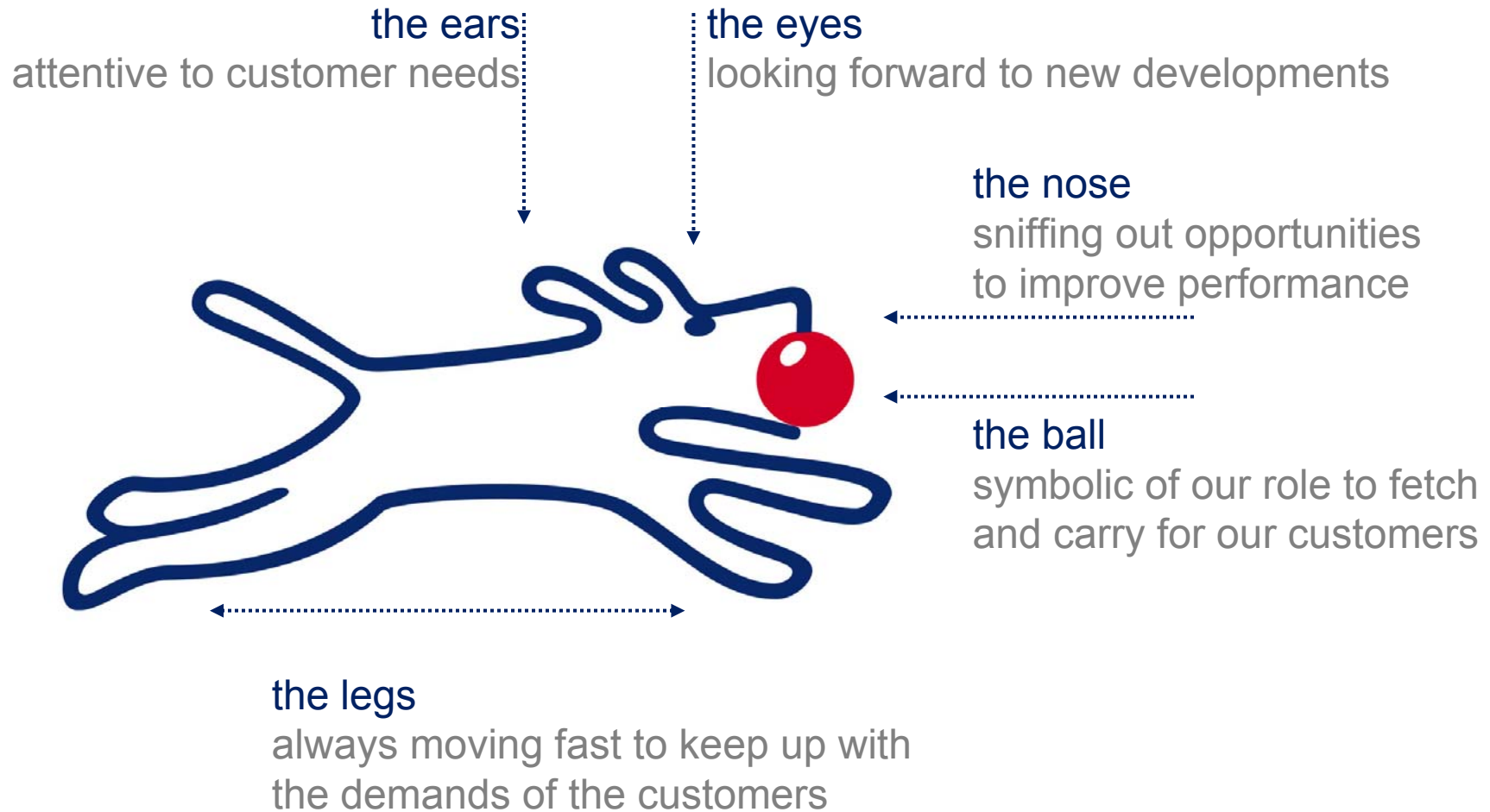
## Comments

- Identified institutional investors account for 76%
- US based investors dominate
- Top 10 individual shareholdings represent around 53%
- Rest of World < 1% (geographical breakdown)
- Retail share 11%



# Our symbol

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# Disclaimer

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This presentation contains forward-looking statements. These statements use words like "believes," "assumes," "expects" or similar formulations. Various known and unknown risks, uncertainties and other factors could lead to material differences between the actual future results, financial situation, development or performance of our company and those either expressed or implied by these statements. These factors include, among other things:

- Downturns in the business cycle of the industries in which we compete;
- Increases in the prices of our raw materials, especially if we are unable to pass these costs along to customers;
- Fluctuation in international currency exchange rates as well as changes in the general economic climate

and other factors identified in this presentation.

In view of these uncertainties, we caution you not to place undue reliance on these forward-looking statements. We assume no liability whatsoever to update these forward-looking statements or to conform them to future events or developments.

