

Interim Report as of September 30, 2006

## Klöckner & Co Group in key figures

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		Q3 2006	Q3 2005	YTD 2006	Pro Forma** Mar. 16 – Sept. 30, 2005*	YTD 2005
<b>Income Statement</b>						
Sales	€ million	1,394	1,191	4,134	2,751	3,747
Earnings before interest, taxes, depreciation and amortization (EBITDA)	€ million	143	49	325	108	149
Earnings before interest and taxes (EBIT)	€ million	128	37	282	77	104
Earnings before taxes (EBT)	€ million	105	-4	230	42	64
Earnings after taxes (EAT)	€ million	85	0	176	37	46
Earnings per share (undiluted)	€	1.64	–	3.27	–	–
<b>Cash Flow Statement</b>						
				YTD 2006	Mar. 16 – Sept. 30, 2005	Pro Forma YTD 2005
Cash flow from operating activities	€ million			12	157	82
Cash flow from investing activities	€ million			60	-29	-29
<b>Balance Sheet</b>						
				Sept. 30, 2006	Dec. 31, 2005	
Working capital***	€ million			1,203	957	
Net financial debt	€ million			435	719	
Equity	€ million			750	323	
Balance sheet total	€ million			2,637	2,256	
<b>Key Figures</b>						
				YTD 2006	Pro Forma YTD 2005	
Turnover	t '000			4,674	4,419	
Employees at Sept. 30				9,626	10,004	

\* Excluding the release of the negative goodwill of €147 million and for the EBT and EAT figures excluding transaction costs amounting to €36 million

\*\* Excluding the release of the pro-forma negative goodwill of €139 million and for the EBT and EAT figures excluding transaction costs amounting to €39 million

\*\*\* Working capital = Inventories plus trade receivables less trade payables

Explanation of pro formas:

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

## Klöckner & Co – strong performance continues

The Klöckner & Co Group can look back on an outstanding Q3 2006. The very positive development of the first half-year was sustained in the period from July through September. The most important features were as follows:

- Earnings much improved again in Q3 2006
- Debt further reduced
- Expansion strategy sustained as planned
- Confirmation of positive outlook for full year 2006

### **Earnings much improved again in Q3 2006**

The Klöckner & Co Group increased its turnover in tonnes by 5.8% in the first nine months of 2006, compared with the same period last year. The extensive measures taken to enhance efficiency and the cost-side economies of scale triggered by the higher tonnage, coupled with the higher gross profit margins, significantly improved the Group's earnings. This also had the effect that fewer employees were able to achieve a higher turnover in tonnes.

The Klöckner & Co Group's EBITDA – the earnings before interest, taxes, depreciation and amortization – for the first nine months of 2006 was €325.3 million, which was €176.6 million higher than the previous year's comparable figure (excluding the income from the reversal of negative goodwill and the transaction costs arising from interim financing). The Europe segment generated EBITDA of €298.9 million, while the North America segment posted €63.5 million. The EBIT of the Group in the first three quarters totaled €282.2 million, which is an increase of €178.7 million compared with the first nine months of 2005. The earnings before taxes similarly climbed sharply, by €166.3 million, to €230.3 million. The equity ratio as of September 30, 2006 stood at 28.5%.

Excluding the special effects of €35.0 million arising from the disposal of participations and real estate no longer required for strategic reasons, the EBITDA for Q3 2006 doubled to €107.9 million.

#### **Debt further reduced**

The funds released by the disposal of peripheral businesses and non-operating assets were used, together with the funds that accrued from the IPO, to reduce the outstanding debt. In August the bond was reduced from €260 million to €170 million mainly through funds resulting from the IPO. The net cash indebtedness was further reduced overall to €435 million as of September 30, 2006 and was thus significantly lower than the comparable figure posted effective December 31, 2005. The business-led increase in net working capital was the principal cause of the rise in the consolidated balance sheet total, which increased by about €381 million to €2.6 billion in the period December 31, 2005 through September 30, 2006.

#### **Expansion strategy sustained as planned**

The strategy of acquiring small and mid-size distribution enterprises in order to strengthen the position of Klöckner & Co in its core markets was accelerated in the third quarter. Following the acquisition in the first six months 2006 of Targe, the French steel service center near Lyon, the Spanish special steel distribution group, Aesga, was acquired in July. In October the US organization acquired the distribution company, Action Steel, in the Midwest of the USA, with facilities in Indianapolis/Indiana and Louisville/Illinois. Also in October, in Switzerland the Klöckner & Co Group acquired Gauss, a company specializing in building, engineering and tools, with a view to developing its business in the Zurich region.

**Confirmation of outlook for full year**

The economic climate for metal distribution remains stable and favourable in fall 2006. The world economy continues to develop vigorously and is fostering the expansion of European foreign trade. In addition domestic demand in Europe especially in the construction and mechanical engineering sectors increased, while the American economy is proving more resilient than expected. The steel price development regarding the product portfolio of Klöckner & Co is almost stable in Q4 2006.

Against this background and in view of the visible successes achieved in the context of the STAR performance program, Klöckner & Co expects the favorable development to be sustained in Q4 2006. Compared with the previous year, we anticipate an appreciable sales increase to a total of more than €5.4 billion for 2006 as a whole. Even after allowing for the one-off effects of about €40 million, the forecast EBITDA of approx. €380–390 million clearly exceeds the comparable 2005 figure of €197 million.

## Klöckner & Co share performance

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### Successful IPO

Trading in the shares of Klöckner & Co AG commenced in the Prime Standard segment of the Official Market of Frankfurt Stock Exchange on June 28, 2006. The issue price was €16.00 and the issue volume totaled €264 million, of which a gross amount of about €104 million accrued to the company in connection with the capital increase. The free float accounted for some 35% and the former sole shareholder, Lindsay Goldberg & Bessemer, the financial investment group, remained the majority shareholder with a stake of about 65%.

On September 18, 2006 Klöckner & Co was included in the SDAX® share index of the Deutsche Börse Group.

### Klöckner & Co share performance indicators (Xetra closing prices)

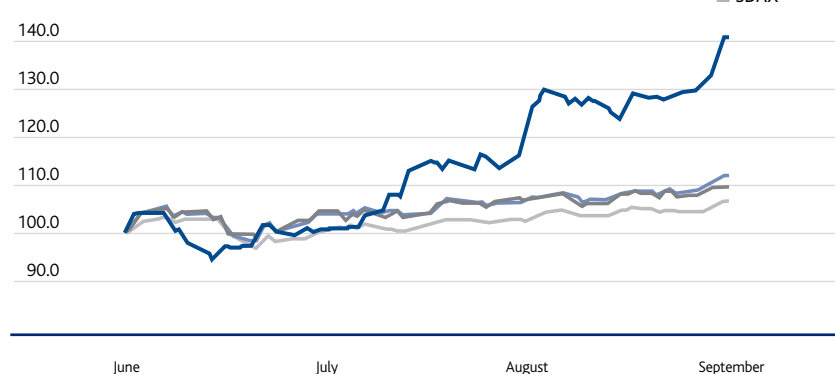
		June 28 – Sept. 29, 2006
Number of shares		46,500,000
Closing price on 9/29/2006	EUR	20.85
Market capitalization on 9/29/2006	EUR	969,525,000
Highest price (Xetra, close)	EUR	20.85
Lowest price (Xetra, close)	EUR	14.00
Average daily turnover		217,000
SIN		KC0100
ISIN		DE000KC01000

### Very favorable price trend

The Klöckner & Co share price has progressed extremely well since the shares were listed. At the close of the third quarter the price was €20.85, which was 35% higher than the previous quarter's closing price. Klöckner & Co's shares thus clearly outperformed the DAX® (+5.7%), MDAX® (+8.4%) and SDAX® (+5.03%) indices. The Klöckner & Co IPO therefore ranks among the year's most successful to date.

Klöckner & Co share performance compared with DAX®, MDAX® and SDAX®  
(6/28/2006–9/29/2006)

Indexed values; Klöckner & Co share closing price in 2006 €14.85 = 100



### Free float increased

At the end of October the portion of freely marketable shares climbed to 55% after the majority shareholder, Lindsay Goldberg & Bessemer, sold another 9 million shares to international institutional investors.

### Communication activities stepped up

In connection with the initial public offering, the investor relations department was established as the first point of contact for investors and analysts. By organizing numerous road shows at home and abroad and attending investors' conferences, the unit cultivated existing relationships and established new contacts with potential investors. Further information on investor relations is contained on our website at [www.kloeckner.de/ir](http://www.kloeckner.de/ir).

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## Consolidated income statement

for the period January 1 to September 30, 2006

(€ thousand)	July 1– Sept. 30, 2006	July 1– Sept. 30, 2005	January 1– Sept. 30, 2006	March 16– Sept. 30, 2005
<b>Sales</b>	<b>1,393,847</b>	<b>1,191,189</b>	<b>4,134,482</b>	<b>2,751,498</b>
Other operating income	51,960	14,142	79,014	36,922
Change in inventories	5,446	-1,847	3,184	-5,265
Capitalized expenses for own work	8	26	71	80
Cost of materials	-1,086,522	-952,316	-3,223,655	-2,223,694
Personnel expenses	-114,762	-111,986	-348,355	-244,829
Depreciation	-14,344	-14,300	-43,374	-31,057
Exceptional depreciation of fixed assets because of impairment of value	-41	0	-123	0
Other operating expenses	-107,124	-88,274	-318,960	-207,017
<b>Operating results before special income and expenses</b>	<b>128,468</b>	<b>36,634</b>	<b>282,284</b>	<b>76,638</b>
Release of negative goodwill	0	0	0	147,094
<b>Operating results</b>	<b>128,468</b>	<b>36,634</b>	<b>282,284</b>	<b>223,732</b>
Income from investments	-80	76	-71	134
Financial income	596	1,257	3,215	2,818
Financial expenses excluding transaction costs	-24,355	-18,180	-55,081	-37,682
<b>Financial results before transaction costs</b>	<b>-23,759</b>	<b>-16,923</b>	<b>-51,866</b>	<b>-34,864</b>
Transaction costs	0	-24,270	0	-36,181
<b>Financial results</b>	<b>-23,759</b>	<b>-41,193</b>	<b>-51,866</b>	<b>-71,045</b>
<b>Income before taxes</b>	<b>104,629</b>	<b>-4,483</b>	<b>230,347</b>	<b>152,821</b>
Income taxes	-19,893	4,938	-54,721	-4,792
<b>Results before minority interests</b>	<b>84,736</b>	<b>455</b>	<b>175,626</b>	<b>148,029</b>
Minority interests	8,390	5,015	23,487	9,736
<b>Net income of parent company's shareholders</b>	<b>76,346</b>	<b>-4,560</b>	<b>152,139</b>	<b>138,293</b>
Earnings per share (in €)	1.64	–	3.27	–

## Consolidated balance sheet

as of September 30, 2006

Assets (€ thousand)	September 30, 2006	December 31, 2005
<b>Long-term assets</b>		
Intangible assets	15,923	14,982
Property, plant and equipment	498,626	548,968
Financial assets	4,093	4,538
Other assets	13,517	11,486
Deferred tax assets	15,442	15,425
<b>Total long-term assets</b>	<b>547,601</b>	<b>595,399</b>
<b>Short-term assets</b>		
Inventories	862,249	693,469
Trade receivables	1,008,555	799,606
Securities	90	79
Income tax assets	6,419	14,174
Other assets	56,555	51,352
Cash and cash equivalents	143,242	79,472
Long-term assets held for sale	12,175	22,457
<b>Subtotal short-term assets</b>	<b>2,089,285</b>	<b>1,660,609</b>
<b>Total assets</b>	<b>2,636,886</b>	<b>2,256,008</b>

<b>Equity and liabilities</b> (€ thousand)	<b>September 30,</b> <b>2006</b>	<b>December 31,</b> <b>2005</b>
<b>Equity</b>		
Subscribed capital	116,250	25
Capital reserves	194,277	44,649
Earnings reserves	330,875	185,712
Total majority interests	641,402	230,386
Minority interests	108,716	92,722
<b>Total equity</b>	<b>750,118</b>	<b>323,108</b>
<b>Liabilities</b>		
<b>Long-term liabilities</b>		
Provisions for pensions and similar obligations	191,445	192,862
Other provisions	55,559	55,325
Financial liabilities	472,008	588,779
Other liabilities	8,957	1,185
Deferred tax liabilities	75,364	82,897
<b>Total long-term liabilities</b>	<b>803,333</b>	<b>921,048</b>
<b>Short-term liabilities</b>		
Provisions	195,209	185,185
Income tax liabilities	40,963	19,592
Financial liabilities	90,902	189,823
Trade payables	667,791	536,055
Other liabilities	88,570	81,197
<b>Total short-term liabilities</b>	<b>1,083,435</b>	<b>1,011,852</b>
<b>Total liabilities</b>	<b>1,886,768</b>	<b>1,932,900</b>
<b>Total equity and liabilities</b>	<b>2,636,886</b>	<b>2,256,008</b>

## Development of equity and minority interests in consolidated financial statements from January 1, 2006 to September 30, 2006

(€ thousand)	Subscribed capital	Capital reserves	Earnings reserves	Currency adjustments	Total majority interests	Minority interests	Total equity
Initial consolidation as of March 16, 2005	25	67,349	-3,128		64,246	90,720	154,966
Changes not affecting net income							
Dividends/changes						-11,613	-11,613
Contribution to capital reserves		16,000			16,000		16,000
Currency adjustments				8,698	8,698	-417	8,281
Net income from March 16 to September 30, 2005			138,294		138,294	9,736	148,030
- of which negative goodwill			(147,094)		(147,094)		(147,094)
<b>Status as of September 30, 2005</b>	<b>25</b>	<b>83,349</b>	<b>135,166</b>	<b>8,698</b>	<b>227,238</b>	<b>88,426</b>	<b>315,664</b>
Status as of January 1, 2006	25	44,649	179,106	6,606	230,386	92,722	323,108
Changes not affecting net income							
Transaction costs less deferred tax		-3,422			-3,422		-3,422
Dividends					0	-6,125	-6,125
Capital increase	116,225	153,050			269,275		269,275
Other changes not effecting net income			-181		-181	181	
Currency adjustments				-6,795	-6,795	-1,549	-8,344
Net income from January 1 to September 30, 2006			152,139		152,139	23,487	175,626
<b>Status as of September 30, 2006</b>	<b>116,250</b>	<b>194,277</b>	<b>331,064</b>	<b>-189</b>	<b>641,402</b>	<b>108,716</b>	<b>750,118</b>

## Cash flow statement

for the period from January 1, 2006 to September 30, 2006

(€ thousand)	January 1– Sept. 30, 2006	March 16– Sept. 30, 2005
Results before taxes and transaction costs	230,346	189,002
Interest	51,866	34,864
Depreciation of fixed assets	43,166	29,255
Other non-cash expenses/income	2,188	-147,094
Results from the disposal of fixed assets and long-term assets held for sale	-40,247	114
Changes in provisions	7,162	7,923
Changes in current assets and liabilities		
– Inventories	-181,300	198,497
– Trade receivables	-216,170	29,659
– Other current assets	-8,441	11,731
– Trade payables	129,410	-91,678
– Other liabilities	25,829	-51,958
Transaction costs	0	-36,181
Income tax payments	-31,434	-17,028
<b>Cash flow from operating activities</b>	<b>12,375</b>	<b>157,106</b>
Inflow from the disposal of fixed assets and long-term assets held for sale	100,725	7,555
Outflow for investments in fixed assets	-41,039	-36,464
<b>Cash flow from investing activities</b>	<b>59,686</b>	<b>-28,909</b>
Capital increase	98,390	16,000
Dividend distributions of Group Companies to shareholder/ to third parties	-6,125	-11,613
Borrowing	173,290	559,477
Redemption of financial liabilities	-246,377	-637,945
Redemption of financial liabilities to shareholder	0	24,000
Interest paid	-28,318	-24,055
Interest received	2,210	2,134
<b>Cash flow from financing activities</b>	<b>-6,930</b>	<b>-72,002</b>
<b>Changes in cash and cash equivalents</b>	<b>65,131</b>	<b>56,195</b>
Effect of exchange rate changes and other changes in cash and cash equivalents	-1,350	3,108
Cash and cash equivalents at the beginning of the period	79,551	146,240
<b>Cash and cash equivalents at the end of the period</b>	<b>143,332</b>	<b>205,543</b>

# Selected explanatory notes on the interim consolidated financial statements of Klöckner & Co AG as at and for the nine-month period ended September 30, 2006

## (1) Corporate information

The parent corporation of the Group is Klöckner & Co AG, domiciled in Germany and registered under HRB 18561 in the commercial register of the local district court of Duisburg. Lindsay Goldberg & Bessemer L.P., domiciled in the United States, is the ultimate parent corporation which is not included in the Group financial statements.

The Group is one of the largest mill-independent multi metal distributors worldwide and operates in each of the major markets in Europe and North America. Beside the distribution of steel, aluminum and several industrial products, the Group offers customers a broad range of services.

On December 17/18, 2004, a German corporation of Lindsay Goldberg & Bessemer (LGB), New York acquired from WestLB, Düsseldorf 94.9% and from HSH Nordbank AG, Hamburg 5.1% of the shares of the former Klöckner & Co AG. The passage of title took place on March 16, 2005 and a new Group was formed on this date, the parent corporation of which was Multi Metal Holding GmbH. Conversion of Multi Metal Holding GmbH into a corporation and the change of name to Klöckner & Co AG took place on June 1, 2006.

On June 28, 2006, LGB sold 10 million of the 40 million shares in its overall possession on the stock exchange. There is a minimum holding period of 12 months for the remaining 30 million shares. Parallel to this operation, Klöckner & Co AG issued 6.5 million new shares at an offering price of €16.00 per share which are also being traded on the stock exchange. The proceeds of €104.0 million resulting from this issue were used to increase subscribed capital by €16.25 million; the remaining €87.75 million were transferred to capital reserves. On September 30, 2006 LGB had a 64.5% holding in Klöckner & Co AG. In view of the positive development of the Klöckner & Co share price since the IPO and the high demand of institutional investors, LGB decided on October 24, 2006, in agreement with the investment banks, to sell 9 million of its 30 million shares in Klöckner & Co AG to large institutional investors at €23.50 per share. This transaction reduced the LGB share to 45.2%.

## (2) Comparative figures

Since the Klöckner & Co Group was created on March 16, 2005, comparative figures for the income statement and cash flow statement in the interim consolidated financial statements relate to the time period March 16 to September 30, 2005.

## (3) Basis of presentation

The interim consolidated financial statements as at and for the nine-month period ended September 30, 2006, have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 Interim Financial Reporting. The interpretations of International Financial Reporting Interpretation Committee (IFRIC) are taken into account. All figures of the previous periods are established on the same principles.

As a result, the interim consolidated financial statements as at and for the nine-month period ended September 30, 2006 do not include all the information and disclosures required for full annual consolidated financial statements according to IFRS. Supplementary and additional information relating to these interim consolidated financial statements as at and for the nine-month period ended September 30, 2006 are stated in the consolidated financial statements for Klöckner & Co AG as at and for the year ended December 31, 2005, which were also prepared in accordance with IFRS and IFRIC interpretations.

In the opinion of the Board of Management, the interim consolidated financial statements as at and for the nine-month period ended September 30, 2006 includes all adjustments considered to be necessary for a fair view of results. Results for the period ended September 30, 2006 are not necessarily indicative of future results. The interim consolidated financial statements as at and for the nine-month period ended September 30, 2006 were authorized for issuance in accordance with a resolution passed by the Management Board on November 28, 2006.

The IFRSs that will be effective or available for voluntary early adoption in the annual consolidated financial statements as at and for the year ended December 31, 2006 are still subject to change or to issuance of additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period that are relevant to this interim financial information will be determined finally only in preparation of the IFRS financial statements as at December 31, 2006.

The consolidated financial statements have been prepared on a historical acquisition and manufacturing cost basis, except for certain financial instruments. The consolidated financial statements are presented in € since this is the currency in which the majority of the Group's transactions are denominated, with all amounts rounded to million; this may result in differences compared to the non-rounded figures.

#### **(4) Significant accounting policies**

For the interim consolidated financial statements as at and for the nine-month period ended September 30, 2006, the Group applied the same accounting policies as those applied by Klöckner & Co AG as at and for the year ended December 31, 2005.

According to IAS 34.30 (c), income tax expense is calculated based on the best estimate of the weighted average annual income tax rate applicable for tax calculation for the full financial year.

#### **(5) Special effects on results**

The preparation of the interim consolidated financial statements as at and for the nine-month period ended September 30, 2006 requires the Board of Management of the Klöckner & Co Group to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Adjustments to account-

ing estimates are recognized in the period in which the estimate is revised if the change affects only that period. An adjustment is recognized in the period of the revision and future periods if the change affects both current and future periods.

Except as described below, in preparing these interim consolidated financial statements as at and for the nine-month period ended September 30, 2006, no significant changes concerning the estimates made by Management in applying the Group's accounting policies have been recognized compared to December 31, 2005:

- In August 2005 the New Orleans facility of the US sub-group was damaged by Hurricane Katrina. In the period from January 1 through September 30, 2006, insurance claims were asserted in the amount of €13.3 million. In this connection the other operating income contains €11.8 million in reimbursement claims against the insurers not relating to the period. The asserted claims contain amounts of €8.4 million in respect of business interruption and €3.4 million in respect of indemnity for repairs. Allowing for repair costs in the amount of €3.4 million, the net effect on the result is €8.4 million, which largely corresponds to the compensation for the interruption of business. Insurance payments of €12.9 million have already been received in 2006.
- In the first six months of 2006, Klöckner Distribution Industrielle S.A., France, received bonus earnings totaling a single digit million amount for steel products relating to financial year 2005. Recognition is carried out in the first six months of 2006 in accordance with payment of bonuses, due to the fact that no binding bonus agreements exist between Klöckner Distribution Industrielle S.A. and its suppliers, and an accurate determination of potential claims by local management was therefore impossible in 2005.
- Every year Klöckner Distribution Industrielle S.A. closes its books in the middle of December, so that sales realized during the second half of December are stated in the first quarter of the following year. This approach leads to a gross profit increase in the first quarter of 2006. The corporation estimates gross profit for the second half of December 2005 to be approx. €2.0 million.
- In the Spanish sub-group, the location San Adrian de Besos – stated as an asset held for sale as of December 31, 2005 – was sold at approximately the Group's carrying amount, which – according to purchase price allocation as at March 16, 2005 – is nearly the fair value. The accounting profit of €20.4 million stated in the local financial statements is subject to a reduced rate of taxation of 15% (instead of a regular rate of taxation of 35%), assuming the related profit will be reinvested in the near future. For this reason, deferred tax income of €4.1 million has been recognized.
- Also in the Spanish sub-group, the Castellón facility was sold on June 28, 2006 for an amount close to the Group carrying amount of €3.0 million.
- The Swiss sub-group has sold land in St. Gallen, which was stated as an asset held for sale as per December 31, 2005. The sale of the relevant land has led to an accounting profit of €1.7 million.

- Klöckner Stahl- und Metallhandel GmbH, Duisburg, sold land and buildings in Hamburg to a Lithuanian company by way of a sales contract dated March 23, 2006. The Hamburg harbor authorities asserted their pre-emption option, however, and assumed rights and obligations under said contract. The legal transfer only became effective on August 14, 2006 on account of various statutory provisions. The accounting profit amounts to approx. €1.5 million.

#### **(6) Changes in the organizational structure of the entity**

Except as described below, in preparing these interim consolidated financial statements as at and for the nine-month period ended September 30, 2006 there are no material changes in the ordinary course of business of the Group in comparison to December 31, 2005:

- Klöckner Distribution Industrielle S.A. is constructing a new warehouse with a total cost of €1.8 million on the island of Réunion; €1.7 million of this amount have already been recognized.
- On July 25, 2006, Klöckner Stahl- und Metallhandel GmbH, Duisburg, sold its holding in Helmut Weisbender GmbH & Co KG, Montabaur. The sales contract was concluded on August 2, 2006. The corporation was deconsolidated based on the figures as at July 31, 2006 with a total loss from deconsolidation amounting to €0.3 million. The sales were €7.1 million in 2005 and €3.8 million up to July 31, 2006.
- By way of a sales contract dated July 5, 2006, Comercial de Laminados S.A., Spain, purchased through its subsidiary Nortichapa S.A., Spain, two special steel distribution corporations, namely Aesga Catalunya S.A. and its associate, Aesgasa Aceros Especiales y Suministros en General S.A. Sales earned by the two corporations in 2005 amounted to €18 million. Both were consolidated for the first time on July 1, 2006. On September 30, 2006 they were merged with their parent corporation, Nortichapa S.A. Sales included in the income statement (July 1 – September 30, 2006) amount to €4.0 million.
- On July 3, 2006 the Group corporation, Klöckner Participaties B.V., Barendrecht/Netherlands, sold to CRH Nederland B.V. its 100% holding in the solar protection group (AVZ Group) consisting of three consolidated corporations, one corporation so far not consolidated and a joint venture. The consolidated results for the Group thereby increase by €33.3 million. The inflow of funds from the sale will further reduce the liabilities of the Klöckner & Co Group and open up additional freedom for expansion. The AVZ Group generated sales of €54.4 million in 2005 and €31.0 million in the first six months of 2006.
- Klöckner Romania S.r.l., Bucharest/Romania, which was founded in 2005, started its operating business in 2006 and has been consolidated since then. The sales through September 30, 2006 total €1.0 million.
- As per March 1, 2006, KSM sold the stock of the Altwert warehouses in Essen, Hanover and Munich. The selling price, which equals the book value, amounts to €9.2 million.

- As per February 23, 2006, effective March 1, 2006, KDI S.A.S. bought the Targe Group consisting of two corporations. The purchase price amounts to €4.8 million; the goodwill according to IFRS amounts to €0.4 million. Sales since initial consolidation amount to €16.0 million.
- As per December 28, 2005, effective commercially January 1, 2006, Klöckner Stahl- und Metallhandel GmbH (KSM) disposed of the business operations of Hanseatischer Drahthandel, ZN Hamburg at approximately carrying amount in an asset deal with a transaction volume of €2.0 million.
- As per December 23, 2005, effective commercially in January 2006, Klöckner & Co Verwaltungs GmbH (formerly Klöckner & Co GmbH) sold 10.02% of the shares held in ThyssenKrupp Ferroglobus Rt., Budapest, to ThyssenKrupp Services AG. The accounting profit amounts to €2.8 million.

#### (7) Development of cost and selling prices

After a decline in prices during the second half of 2005, the overall price for steel products increased during the first nine months of 2006. The actual price level is still below the average level of prices for the nine months of 2005. Due to a considerable increase in quantities, the gross profit of the Klöckner & Co Group is higher in the first nine months of 2006 compared to the first nine months of 2005.

#### (8) Acquisitions and disposals of property, plant and equipment

During the nine-month period from January 1, 2006 to September 30, 2006, the Klöckner & Co Group acquired assets totaling €27.4 million, of which €1.0 million are related to intangible assets and €0.6 million to financial assets. The cash flow statement shows the acquisitions of the Targe Group and AESGA under the outflow for investments in fixed assets. It also shows the inflows from the sale of the AVZ Group and Weisbender.

The initial consolidation of the Targe Group, the two AESGA corporations and Klöckner Romania S.r.l., as well as the sale of the AVZ Group and Weisbender, lead to the following changes in assets and liabilities:

(in € million)	Targe Group	AESGA	Klöckner Romania	AVZ Group	Weisbender	Total
Long-term assets	2.7	4.6	0.1	-12.3	-0.1	-5.0
Short-term assets	10.4	28.4	0.7	-25.8	-1.5	12.2
Long-term liabilities	0.8	1.1	0.0	-2.9	-0.2	-1.2
Short-term liabilities	7.3	6.9	0.8	-7.7	-0.8	6.5

As of September 30, 2006 assets with a carrying amount of €11.1 million as well as long-term assets for sale amounting to €22.5 million were disposed of by the Klöckner & Co Group including the results of the deconsolidation of AVZ Group and Weisbender this leads to an accounting profit of €40.2 million.

The properties in Switzerland and Spain stated as assets held for sale in the consolidated financial statements as at and for the year ended December 31, 2005 and valued at €22.5 million were already disposed of during the first quarter (see Note 5).

The order commitment for acquisitions amounts to €13.7 million.

### (9) Segment reporting

The segment reporting in the interim consolidated financial statements as at and for the nine-month period ended September 30, 2006 makes a comparison with the figures for the period March 16 to September 30 for the financial year 2005 – which takes into account the legal constitution of the Group – as well as for the period January 1 to September 30 for the financial year 2006. The presentation of segment reporting is therefore restricted in terms of comparability.

(in € million)	North America		Europe		Headquarters/ Consolidation		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
Segment sales	657.8	449.9	3,476.7	2,301.6	0	0	4,134.5	2,751.5
EBITDA*	63.5	24.0	298.9	85.5	-37.1	-1.7	325.3	107.8
Segment result (EBIT)*	58.1	20.1	270.8	62.4	-46.7	-5.7	282.2	76.8
Effect on result of separation of pensions	0	0	27.9	0	-27.9	0	0	0
Number of employees at Sept. 30	1,101	1,078	8,407	8,814	118	112	9,626	10,004

\* Without release of negative goodwill in the amount of €147.1 million, before transaction costs of €36.2 million for the financial year 2005 and without effect on result of separation of pensions

The separation of provisions for pensions and similar obligations relating to non-active employees with effect from January 1, 2006 at book valuation leads to recognition of revenue in the Europe segment and a corresponding expense in the Headquarters segment totaling €27.9 million on account of the increased commitment valuation in accordance with IFRS.

Sales for the Europe segment contain €127.3 million (previous year €54.1 million) from Reynolds European S.A.S/France. Furthermore, sales as of September 30, 2006 also include €48.0 million from Alu Menziken Metall Service AG/Switzerland. In 2005, these corporations did not form part of the Klöckner & Co Group.

### (10) Financial liabilities

During the first three quarters of 2006, gross liabilities were reduced by €221.2 million to €577.8 million. After deduction of liquid funds, the amount of net liabilities was reduced from €719.4 million to €434.5 million.

On May 15, 2006, a shareholder's loan inclusive of interest receivable was granted to Klöckner & Co AG by Multi Metal Investment S.à r.l. in the form of a non-cash capital increase amounting to €100 million and a capital reserve increase of €65.3 million.

(in € million)	September 30, 2006	December 31, 2005
<b>Long-term financial liabilities</b>		
Notes	163.9	249.8
Liabilities to financial institutions	109.7	122.9
Liabilities arising from ABS program	183.7	145.6
Finance lease liabilities	14.7	16.1
Shareholder's loan		54.4
<b>Total long-term financial liabilities</b>	<b>472.0</b>	<b>588.8</b>
<b>Short-term financial liabilities</b>		
Notes	6.7	3.4
Liabilities to financial institutions	80.1	76.8
Finance lease liabilities	4.1	2.8
Shareholder's loan		106.8
<b>Total short-term financial liabilities</b>	<b>90.9</b>	<b>189.8</b>
<b>Financial liabilities acc. to balance sheet</b>	<b>562.9</b>	<b>778.6</b>
Transaction costs	14.9	20.4
<b>Total financial liabilities</b>	<b>577.8</b>	<b>799.0</b>

On August 11, 2006, the high yield bond with an interest rate of 10.5% was reduced by €90 million through funds resulting from the IPO. This reduction is associated with a one-time charge in the third quarter of €12.8 million for additional reduction and deferred transaction costs.

#### (11) Related parties

Klöckner & Co AG, Duisburg is the parent corporation of the Group publishing financial statements. As per December 31, 2005, shareholder's loans from the majority shareholder, Multi Metal Investment S.à r.l., Luxembourg, were granted amounting to €152.5 million. On May 15, 2006, these loans were converted in full into equity (inclusive of interest receivable). As at this date, the total loan level inclusive of interest amounted to €165.3 million.

As per September 30, 2006, consulting costs amounting to €2.1 million were incurred relating to investment corporations of the US stock-exchange business Lindsay, Goldberg & Bessemer (LGB). For another €0.5 million, a provision was set up during the financial year 2005 which was already used in the first quarter of 2006. The consulting contracts with the LGB companies were terminated on May 31, 2006.

#### (12) Changes in Supervisory Board

The Supervisory Board of Klöckner & Co AG was appointed for the first time on May 31, 2006. It was made up of the following members:

Prof. Dr. Dieter Vogel	Chairman Managing Partner of LGB & Vogel GmbH, Düsseldorf
Alan E. Goldberg	Co-Managing Partner of Goldberg Lindsay & Co LLC, New York/USA
Michael W. Dees	Principal of Goldberg Lindsay & Co LLC, New York/USA

On June 7, 2006 the Supervisory Board was expanded to include the following members:

Dr. Michael Rogowski	Vice-Chairman Entrepreneur
Robert D. Lindsay	Co-Managing Partner of Goldberg Lindsay & Co LLC, New York/USA
Frank H. Lakerveld	Member of Board of Management of Sonepar S.A., France

Multi Metal Holding GmbH, as the predecessor of Klöckner & Co AG, did not have a supervisory board before May 31, 2006.

### **(13) Risk management**

Risk management objectives and guidelines applied by the Klöckner & Co Group remained unchanged for the first nine months of 2006 in relation to the disclosures on risk management listed in the IFRS financial statements as at and for the year ended December 31, 2005 of Klöckner & Co AG.

### **(14) Subsequent events**

As per August 16, 2006 Namasco Corporation, USA bought the distribution corporation Action Steel with head offices in Indianapolis/USA. In 2005, their approx. 110 employees generated sales of about €55 million (\$70 million). The purchase was concluded on October 2, 2006. These two corporations are to be consolidated for the first time in the fourth quarter of 2006.

On October 17, 2006 Debrunner König Holding AG, Switzerland, bought the Swiss distribution company, Gauss & Co AG. With 40 employees the 2005 sales of Gauss & Co AG amounted to around €10 million (CHF 15 million).

Duisburg, dated November 28, 2006

Klöckner & Co AG  
Board of Management

## Financial Calender 2007

March 29	Annual Statement 2006 Financial statement press conference Analyst conference
May 14	Q1 interim report 2007
June 20	General Shareholders' Meeting 2007
August 15	Q2 interim report 2007
November 14	Q3 interim report 2007

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