



Klöckner & Co

**International Product Management
and advantages of central sourcing**

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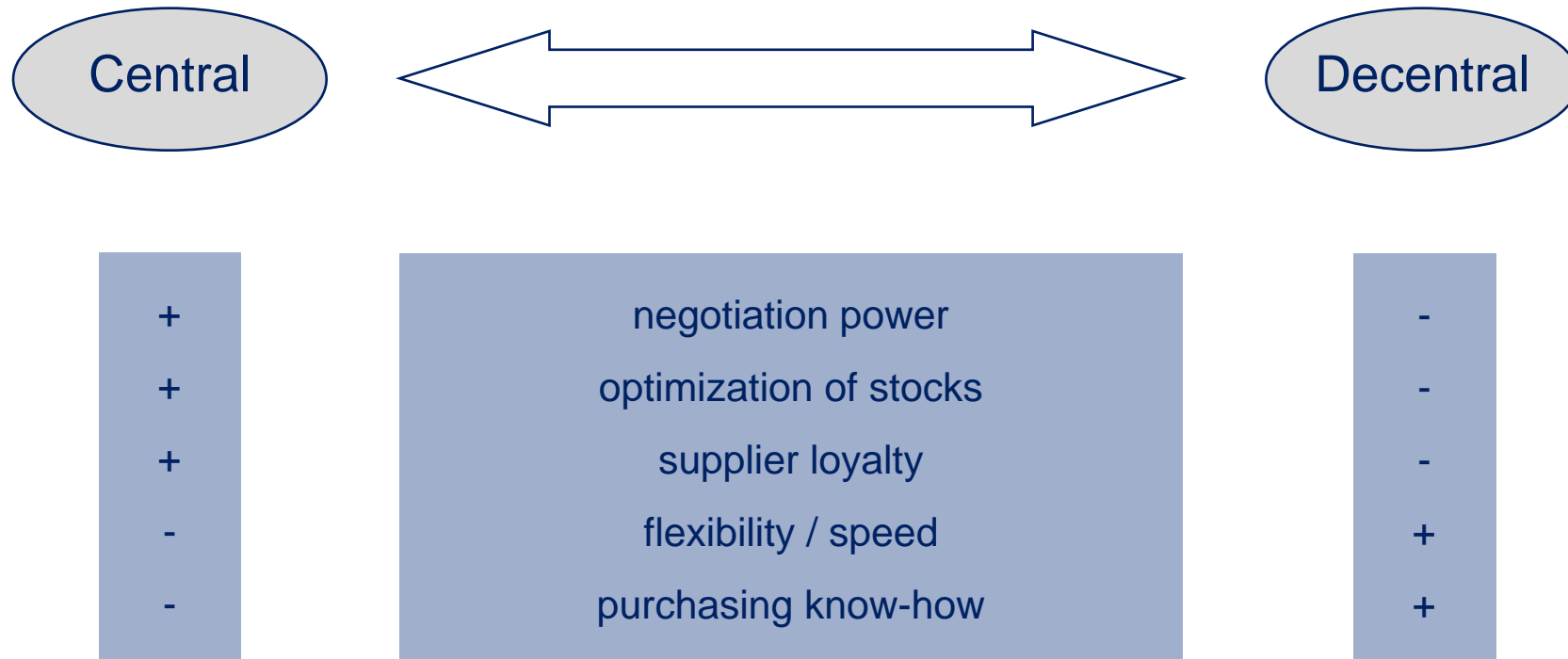


Why central sourcing?



Central vs. decentral sourcing

Centralizing sourcing has advantages and disadvantages:



Central vs. decentral sourcing at Klöckner & Co

Klöckner & Co has built up an IPM organization to benefit from both philosophies:

	Central - decentral	Advantages of the IPM organization
Negotiation power		Bundling of purchasing volumes on Group level
Optimization of stocks		Optimal allocation of procured volumes to KlöCo warehouses; enforcement of intercompany business; basis unified system
Supplier loyalty		IPM is „one-face-to-the-supplier“
Flexibility/ speed		Decentral disposition to react quickly to the local market situations
Purchasing know-how		Keep the closeness to the local markets

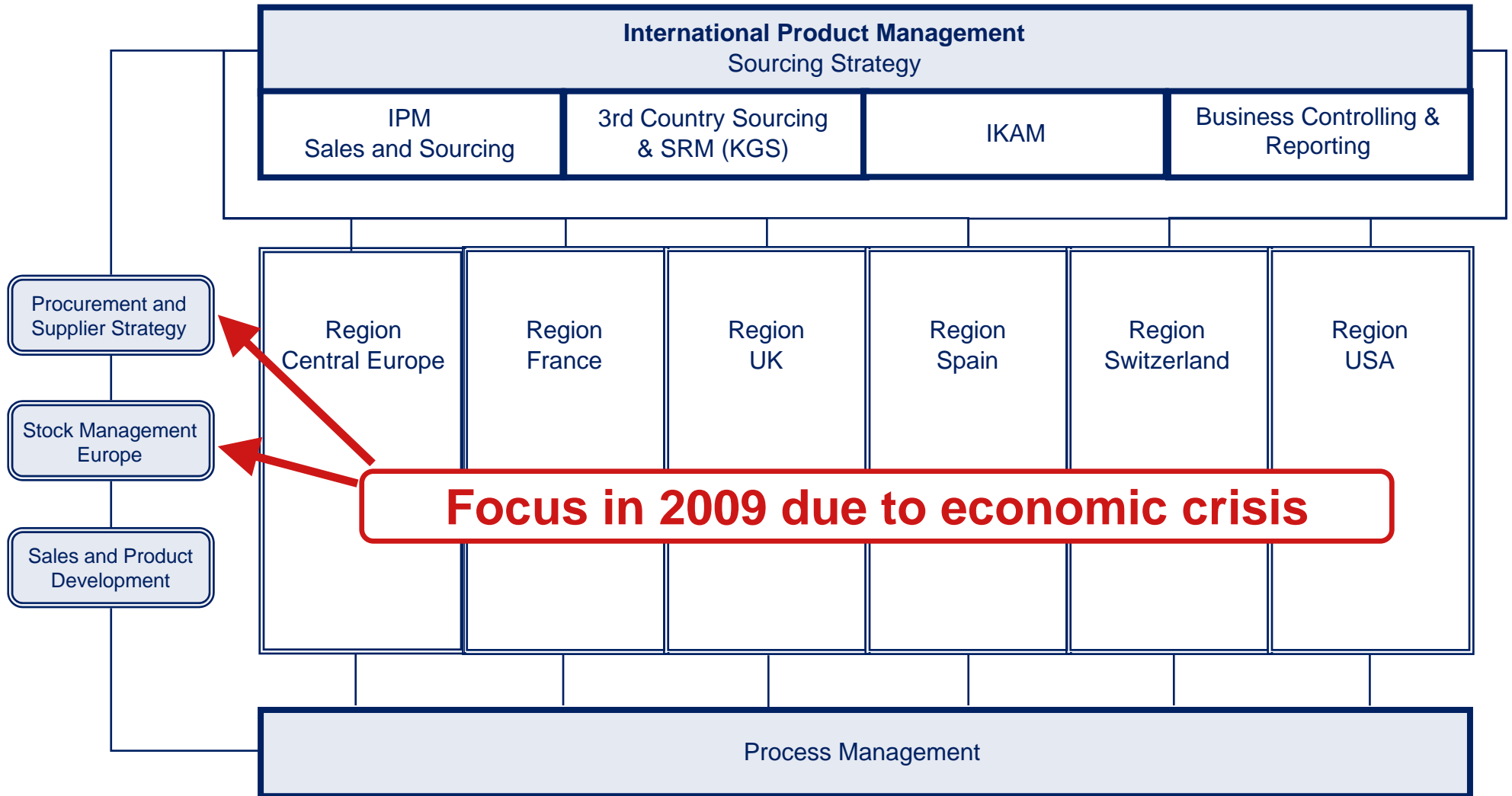
optimal organization = new Klöckner & Co organization
 old Klöckner & Co organization



How is IPM organized to profit from both philosophies?



International Product Management - Overview



International Product Management

Main tasks



International Product Management

Klöckner Global Sourcing and 3rd country sourcing

- To avoid dependencies of European mills it is necessary to set up strategic partnerships in BRIC countries
 - To achieve saving potentials and increase competitiveness of Klöckner & Co, KGS focuses on competitive prices offered by first class 3rd country steel mills
 - KGS bundles the volume of commodity grades from different group companies for monthly negotiations and shipments
 - 3-4 orders from different companies with different volumes can be combined in one shipment
- ➔ Business with BRIC countries requires a lot of special know-how (different cultures, processing of order account, etc.) which is centralized in KGS



International Product Management

Int. Key Account Management (IKAM) clients and markets

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
- Environmental Technology
- Wind Energy / Offshore-Technology
- Energy Market / Power Plant Construction
- Aviation and Space Industry



International Product Management

Bundled competences

IKAM bundles Klöckner & Co competences and offers one face to the customer



Int. Key Account Mgmt.

Customer



International Product Management

Customers' benefits from Int. Key Account Management (IKAM)

- One single international point of contact
- Access to all Klöckner & Co facilities and product/ service offerings across the world
- Only a limited amount of selected customers chosen for IKAM
- Clear world-wide focus on their specific needs
- Upon request in-depth-analysis of their existing structures, processes, products and partnerships including proposals for optimization
- Long-term view with a focus on partnership and commonly developed strategy
- Dedicated Key Account Manager coordinating your needs on an international scale



International Product Management

Process management

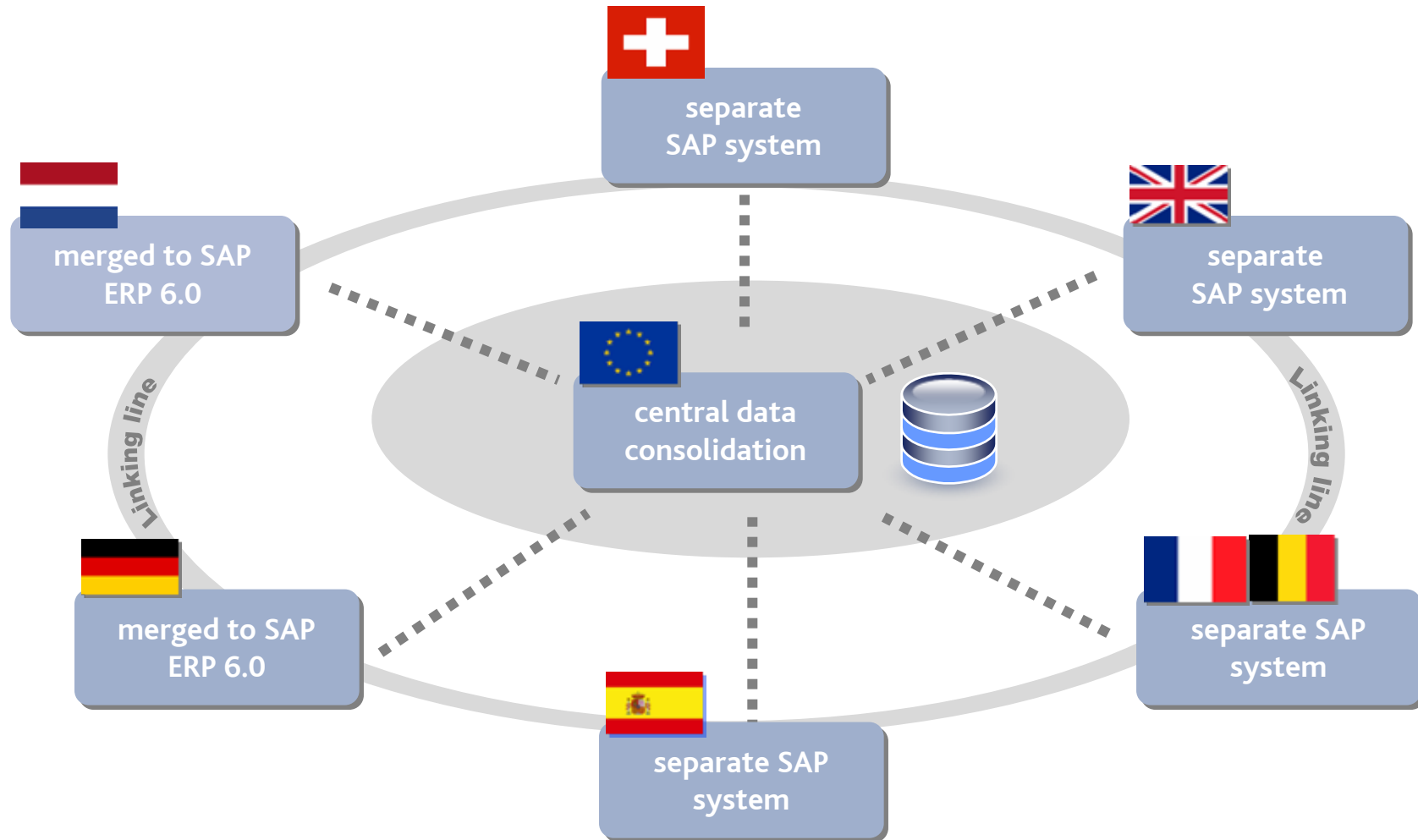
Most important pre-condition to realize synergies within the group is a standardized data base

- Further improvement of data consolidation by merging all countries to one SAP release ERP 6.0
 - All companies' applications are merged to one unified template (processes and master data) for all companies
 - To achieve an even higher data quality the creation and maintenance of material and supplier master data is centralized
- Reports can be created quick and easily



International Product Management

Process management



International Product Management

Conclusion

To optimize the purchasing of Klöckner & Co

- A matrix organization was built up
- One IPM-leader per product group coordinates all countries
- Cross-national teams of purchasing specialists decide about an international supplier and purchasing strategy per product group

To achieve best results a high level of transparency is necessary which is guaranteed by

- The merger to one SAP system ERP 6.0 for all countries, further improvement with the rollout of unified templates and processes
- A specialized business controlling department on Group level

To stay competitive and flexible in the countries

- The countries can dispose independently within the frame conditions
- Order placement and article specification is local
- Local price trends and conditions are covered



How does the centralized sourcing process of Klöckner & Co work?



Supplier and procurement strategy

1.) Supplier classification

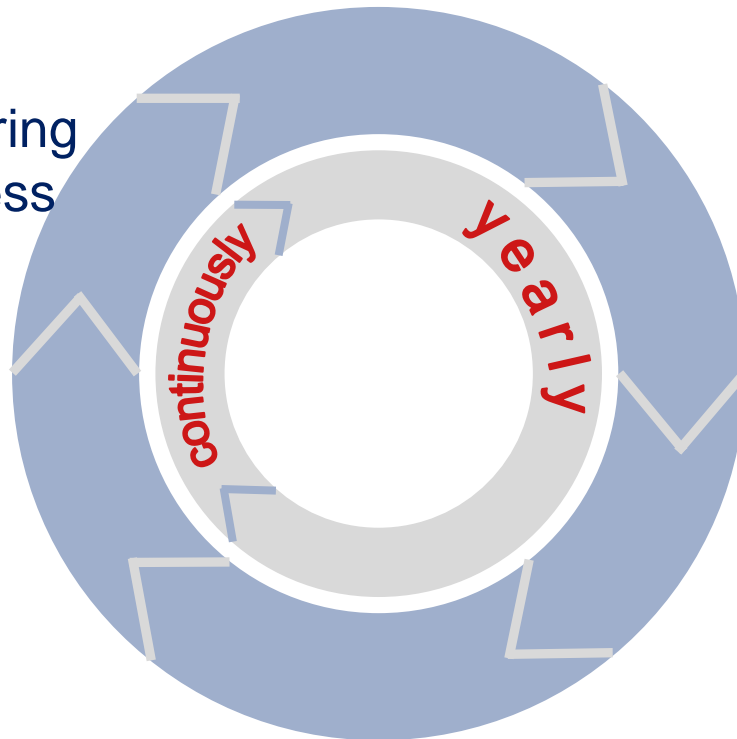
6.) Continuous monitoring and adjustment process

2.) Pre-selection of key and support suppliers

5.) Implementation of the strategy

3.) Negotiations with key and support suppliers

4.) Allocation of annual purchasing quantities

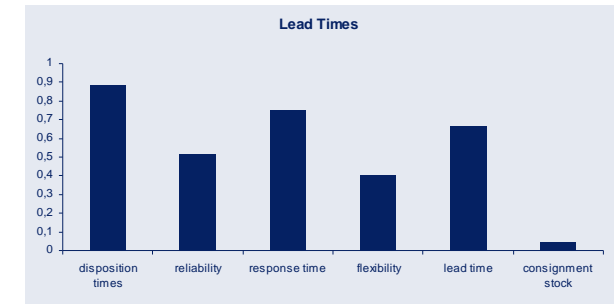
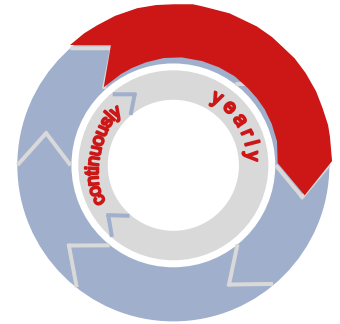


Supplier and procurement strategy

Classification and pre-selection of key and support suppliers

A detailed supplier classification system enables a pre-selection of our key and support suppliers

- The supplier classification breaks down into four areas
 - Commercial situation
 - Lead times
 - Quality
 - Relationship to supplier
- Each area contains several sub-criteria which ensure a wide and detailed evaluation of every supplier
- Due to excellent comparability, a pre-selection of key and support suppliers takes place

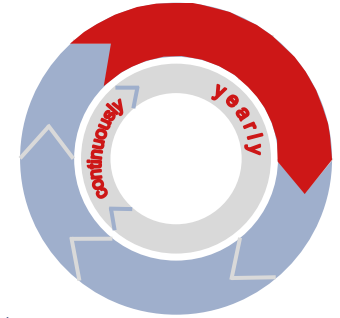


Supplier and procurement strategy

Definition of key and support suppliers

Key suppliers

- are well aware of Klöckner & Co's function in the supply chain
- are interested in continuous collaboration
- support Klöckner & Co's global strategy with best prices, quantity and quality
- have a leading position in their segment
- offer us opportunities e.g. buffer stocks, consignment, exclusivity...



Support suppliers

- are well aware of Klöckner & Co's function in the supply chain
- supporting Klöckner & Co in niche areas e.g. special products or markets
- are under investigation as a potential strategic supplier
- deliver required and homogeneous quality

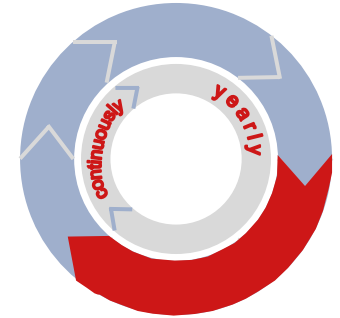


Supplier and procurement strategy

Negotiations and allocation of annual purchasing quantities

The results of the supplier classification build up the basis for the negotiation and allocation process

- Cross-national negotiations with suppliers on Group level about
 - Cooperation / strategic partnership
 - Best price policy
 - Quantities / bonus agreements
 - Quality
 - Service level
 - Payment terms
- In case of successful negotiations the status of a key or support supplier will be confirmed
- The annual purchasing quantities will be allocated and assigned to the key and support suppliers
- Communication of the detailed purchasing plan to the chief-purchaser of every subsidiary including split-ups per supplier and country



Supplier and procurement strategy

Continuous monitoring and adjustment



Supplier and procurement strategy

Conclusion

IPM realizes synergies on several levels:

- Development of cross-national product and sourcing strategies on the Group level
- Reduction of the number of core suppliers in order to bundle purchasing quantities
- Centralized negotiations and a “one-face-to-the-supplier” concept
- Further stock level optimization after SAP implementation in all countries
- Benchmarking of countries within the Group and best practice



What are the benefits of the new organization?



Substantial benefits of the new organization

Significant strengthening of the purchasing position has been achieved

- Optimization of price conditions
- Price advantages in two pillars
 - Negotiation for volume gives us better prices than smaller competitors
 - Bonus agreement depending on procured volume as a payback ex post

➔ Purchasing advantage depending on product group

➔ Central bonus agreements as additional potential

- Optimization of payment conditions
- Optimization of stock management, turnover target at least 5 times a year

➔ Considerable improvement of NWC position (below 20% of sales)

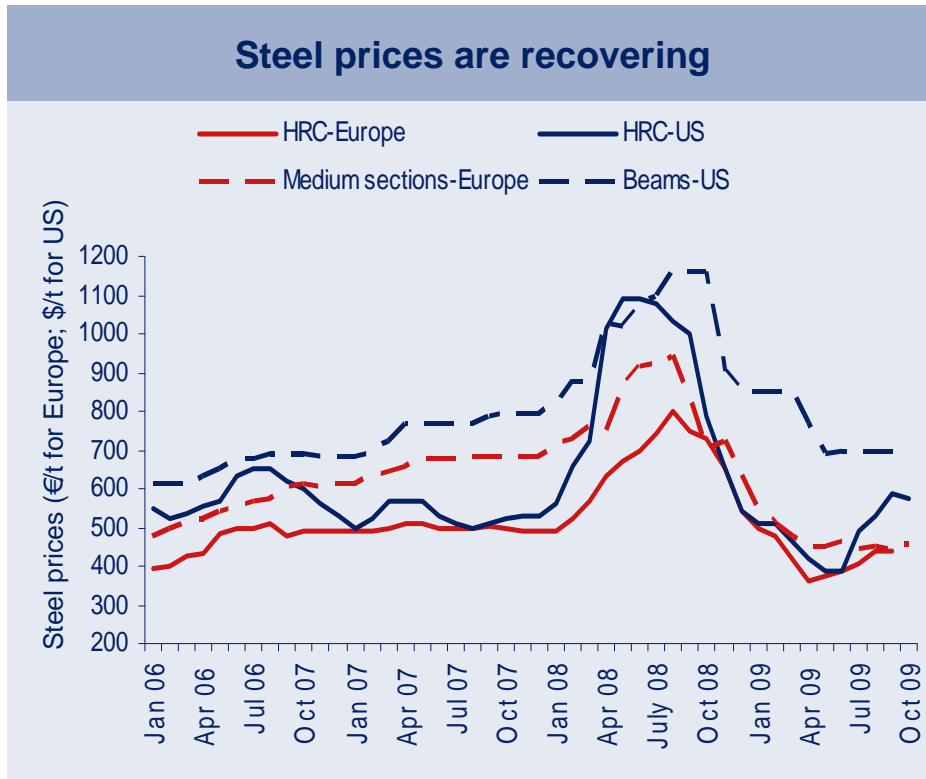


Price and stock development 2009

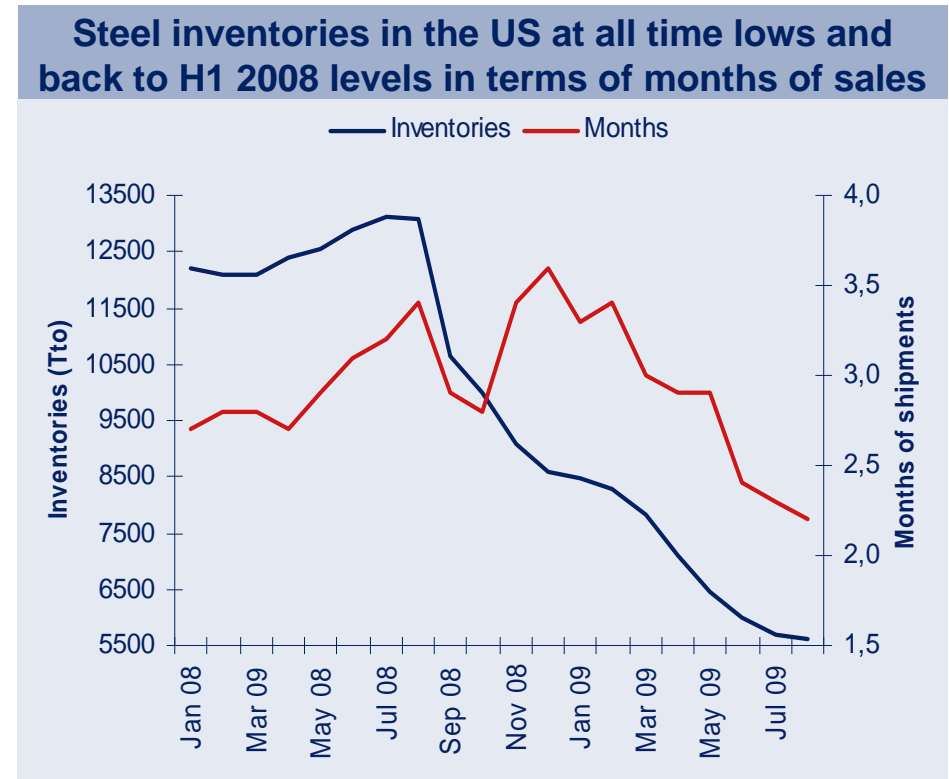


Stocks on all time lows, prices have picked up in last months

- Prices for carbon and stainless steel products have improved in the US and Europe
- Distribution stocking levels at record lows in the US and in Europe, with demand stabilizing
- Utilization rates in the US and Europe have increased due to a stronger apparent demand



Source: SBB



Source: Metals Service Center Institute



Our symbol

