

Consolidated financial statements of
Klöckner & Co Aktiengesellschaft
(before Multi Metal Holding GmbH) (IFRS)
as of December 31, 2005 and for the period
from March 16, 2005 to December 31, 2005
(audited)

Consolidated balance sheet as of December 31, 2005

	<u>Notes</u>	<u>Dec. 31, 2005</u>	<u>March 16, 2005</u>
		EUR in thousands	EUR in thousands
Assets			
Long-term assets			
Intangible assets	(8)	14,982	13,718
Property, plant and equipment	(9)	548,968	555,835
Financial assets	(10)	4,538	3,885
Other assets	(11)	11,486	14,791
Deferred tax assets	(12)	<u>15,425</u>	<u>19,368</u>
Total long-term assets		<u>595,399</u>	<u>607,597</u>
Short-term assets			
Inventories	(13)	693,469	881,336
Trade receivables	(14)	799,606	862,411
Securities		79	8,161
Income tax assets	(15)	14,174	4,122
Other assets	(16)	51,352	61,989
Cash and cash equivalents	(43)	<u>79,472</u>	<u>138,079</u>
Subtotal short-term assets		<u>1,638,152</u>	<u>1,956,098</u>
Long-term assets held for sale	(17)	<u>22,457</u>	23,739
Total short-term assets		<u>1,660,609</u>	<u>1,979,837</u>
Total assets		<u>2,256,008</u>	<u>2,587,434</u>
Equity			
Subscribed capital		25	25
Capital reserves		44,649	67,349
Earnings reserves		185,712	-3,128
Total majority interests		230,386	64,246
Minority interests		<u>92,722</u>	<u>90,720</u>
Total equity	(18)	<u>323,108</u>	<u>154,966</u>
Negative goodwill			147,094
Liabilities			
Long-term liabilities			
Provisions for pensions and similar obligations	(19)	192,862	208,855
Other provisions	(20)	55,325	56,910
Financial liabilities	(21)	588,779	624,509
Other liabilities	(22)	1,185	4,757
Deferred tax liabilities	(23)	<u>82,897</u>	<u>87,017</u>
Total long-term liabilities		<u>921,048</u>	<u>982,048</u>
Short-term liabilities			
Provisions	(24)	185,185	205,413
Income tax liabilities	(25)	19,592	43,113
Financial liabilities	(21)	189,823	333,010
Trade payables	(26)	536,055	613,743
Other liabilities	(27)	<u>81,197</u>	<u>108,047</u>
Total short-term liabilities		<u>1,011,852</u>	<u>1,303,326</u>
Total liabilities		<u>1,932,900</u>	<u>2,285,374</u>
Total equity and liabilities		<u>2,256,008</u>	<u>2,587,434</u>

Consolidated income statement for the period from March 16, 2005 to December 31, 2005

	<u>Notes</u>	<u>March 16 – December 31, 2005</u> EUR in thousands
Sales	(31)	<u>3,968,573</u>
Other operating income	(32)	58,451
Change in inventories		(5,258)
Capitalized expenses for own work		190
Cost of materials	(33)	(3,176,850)
Personnel expenses excluding restructuring expenses	(34)	(356,540)
Depreciation		(47,335)
Exceptional depreciation of fixed assets because of impairment of value		(1,658)
Other operating expenses	(35)	<u>(332,041)</u>
Operating results before special income and expenses		<u>107,532</u>
Release of negative goodwill	(36)	147,094
Restructuring expenses	(37)	(17,100)
Results from divestment	(38)	(1,873)
Operating results		235,653
Income from participations	(39)	394
Financial income		3,551
Financial results excluding transaction costs		(52,460)
Financial results before transaction costs	(40)	(48,909)
Transaction costs	(41)	(36,181)
Financial results		(85,090)
Income before taxes		150,957
Income taxes	(42)	(15,944)
Results before minority interests		135,013
Minority interests		13,973
Net income of parent company's shareholder		121,040

Consolidated cash flow statement for the period from March 16, 2005 to December 31, 2005

	March 16 – December 31, 2005 EUR in thousands
Results before taxes and transaction costs	187,138
Interest	48,909
Depreciation/write-ups of fixed assets	49,094
Other non-cash expenses/income	(147,094)
Results from the disposal of fixed assets	(2,073)
Changes in provisions	(49,126)
Changes in current assets and liabilities:	
— Inventories	220,312
— Trade receivables	114,180
— Other current assets	19,276
— Trade payables	(112,129)
— Other liabilities	(48,700)
Transaction costs	(36,181)
Income tax payments	<u>(47,279)</u>
Cash flow from operating activities	<u>196,327</u>
Inflow from the disposal of fixed assets	11,756
Outflow for investments in fixed assets	<u>(55,679)</u>
Cash flow for investing activities	<u>(43,923)</u>
Capital increase	38,494
Dividend distributions of Group Companies to shareholder/to third parties	(11,613)
Borrowing	524,348
Redemption of financial liabilities	(746,137)
Change in the financial liabilities to shareholder	1,507
Interest paid	(32,573)
Interest received	<u>3,490</u>
Cash flow for financing activities	<u>(222,884)</u>
Changes in cash and cash equivalents	<u>(70,480)</u>
Effect of exchange rate changes and other changes in cash and cash equivalents	3,791
Cash and cash equivalents at the beginning of the period	<u>146,240</u>
Cash and cash equivalents at the end of the period	<u>79,551</u>

**Consolidated development of shareholders' equity and minority interests for the period
from March 16, 2005 to December 31, 2005**

	<u>Subscribed capital</u>	<u>Capital reserves</u>	<u>Earnings reserves</u>	<u>Currency adjustments</u>	<u>Total majority adjustments</u>	<u>Minority interests</u>	<u>Total equity</u>
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Initial consolidation as of March 16, 2005	25	67,349	(3,128)		64,246	90,720	154,966
Changes not affecting net income — in the scope of consolidation							
Dividends/changes						(11,613)	(11,613)
Contribution to capital reserves . .		38,494			38,494		38,494
Withdrawal from capital reserves — by currencies		(61,194)	61,194		6,606	(358)	6,248
Net income from March 16 to December 31, 2005			121,040		121,040	13,973	135,013
— of which negative goodwill . . .			(147,094)		(147,094)		(147,094)
Status as of December 31, 2005	<u>25</u>	<u>44,649</u>	<u>179,106</u>	<u>6,606</u>	<u>230,386</u>	<u>92,722</u>	<u>323,108</u>

Notes to the consolidated financial statements

(1) Information on the Group and business activities

The Group's parent company is Multi Metal Holding GmbH, Duisburg, which is registered in the Commercial Register of Duisburg Local Court under No. HRB 17571. Multi Metal Holding GmbH holds all of the shares in Klöckner Information Services GmbH, Duisburg, and in Multi Metal Beteiligungs GmbH, Duisburg, which in turn owns all of the shares in Klöckner & Co International GmbH, Duisburg. Klöckner & Co GmbH, Duisburg, a subsidiary of Klöckner International GmbH, is the holding company that manages the Group's affairs. The most senior controlling company is Lindsay Goldberg & Bessemer L.P., which is domiciled in the United States. It is not included in the consolidated financial statements.

The Group ranks among the largest mill-independent multi metal distribution companies worldwide and engages in all the markets of Europe and North America. Next to the trade with steel, aluminum and various industrial products, it offers a range of associated services as well.

By way of contracts dated December 17/18, 2004, an enterprise domiciled in Germany and belonging to the fund management company, Lindsay Goldberg & Bessemer (LGB) of New York, acquired the 94.9% holding of WestLB, Düsseldorf, and the 5.1% holding of HSH Nordbank AG, Hamburg, in the former Klöckner & Co AG, which is now Klöckner & Co Beteiligungs GmbH. The transfer of ownership took place on March 16, 2005.

(2) Accounting policies

The consolidated financial statements are prepared in compliance with the International Financial Reporting Standards (IFRS) and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC), as applicable in the EU.

A new Group was created effective March 16, 2005 and consolidated for the first time according to IFRS 3 (Business Combinations). The revaluation of assets and debts in connection with the initial consolidation and the purchase price allocation gave rise to negative goodwill of EUR 147,094 thousand; it is immediately recorded as income in compliance with IFRS 3. It is shown as a separate item under pre-tax profit.

The provisions of the IFRS valid on December 31, 2005, including the changes to IAS 19 (Employee Benefits), were applied.

IFRS 7 (Financial Instruments: Disclosures), which has been published but not yet put into force, was not applied, nor were the associated changes to IAS 32 (Financial Instruments: Disclosures and Presentation) and IFRIC 4 (Determining whether an Arrangement contains a Lease), nor the changes to IAS 39 (Financial Instruments: Recognition and Measurement) and IAS 1 (Presentation of Financial Statements — Capital Disclosures).

The annual financial statements of the companies included in the consolidated financial statements, which have all been prepared as at the closing date of the consolidated financial statements, are based on uniform accounting and valuation policies.

The consolidated financial statements are prepared in euros. Unless otherwise indicated, all amounts are stated in thousands of euros (EUR thousand). The amounts are rounded in keeping with customary commercial practice.

Individual items have been combined in the balance sheet and the income statement; these are disclosed separately in the notes to the financial statements. The comparative figures in the balance sheet refer to the time of initial consolidation and are indicated in brackets after the value effective December 31, 2005.

The income statement is prepared according to the total cost method.

(3) Scope of consolidation

The consolidated financial statements include, besides Multi Metal Holding GmbH, the annual financial statements as at December 31, 2005 of 12 (March 16, 2005: 13) domestic and 130 (March 16, 2005: 123) foreign participations, in which Multi Metal Holding GmbH directly or indirectly holds the majority of votes as the controlling enterprise.

In the context of an asset-backed securitization program, a total of 13 special-purpose entities were formed in several countries in the financial year.

None of the Group companies has an equity interest in the special-purpose companies, but they were formed specifically for the purpose of purchasing and collecting receivables for the Group companies. For this reason they are included in the consolidated financial statements in compliance with SIC-12 (Consolidation of Special Purpose Entities).

The consolidated financial statements do not include 13 subsidiaries which, also as a whole, are not material for the net assets, financial position and results of operations of the Group.

Two foreign joint ventures (March 16, 2005: two foreign joint ventures) are valued at equity in the consolidated financial statements. Associated companies of minor significance are stated according to the cost method.

The increase in the number of domestic and foreign companies included in the consolidated financial statements since March 16, 2005 is attributable to the following:

— Mergers	(4)
— Acquisition	+5
— Initial consolidation of special-purpose entities	+13
— Formation	<u>+5</u>
	<u>+19</u>

The following companies were acquired during the financial year and are included in the consolidated financial statements in compliance with IFRS 3:

Reynolds European S.A.s., Rueil Malmaison/France
 Testas S.A.s. Créteil/France
 TIM Logistique GIE, Rueil Malmaison/France
 Intermétaux S.A.s., Rueil Malmaison/France
 Alu Menziken Service AG, Menziken/Switzerland

At the time of acquisition, the initial consolidation of the acquired companies had the following overall impact on the balance sheet items (values in EUR thousand):

Long-term assets	5,154
Short-term assets	59,731
Long-term debt	23,678
Short-term debt	41,207

The mergers involved Trilacolor Immobilien AG, Zofingen/Switzerland and Spahr AG, Zofingen/Switzerland, which were absorbed by their parent, Debrunner Spahr AG, Zofingen/Switzerland; Klöckner Stahl AG, Dietikon/Switzerland, which was integrated in König Feinstahl AG, Dietikon/Switzerland; and Hanseatischer Drahthandel GmbH, Bremen, which was absorbed by Dobbertin Drahthandel GmbH, Hamburg.

Klöckner S.à r.l., Klöckner Investment SCA and Klöckner Finance S.à r.l. were formed in Luxembourg, KVT CZ s.r.o., Brno, was formed in the Czech Republic, and Klöckner Namasco Receivables Corporation, Roswell, was formed in the USA.

UAB Klöckner Baltija, Klaipeda/Lithuania; Klöckner Romania SRL, Bucharest/Romania; and ODS Instrumentation India Private Limited, Mumbai/India were also formed, but they were omitted from the consolidated financial statements in view of their relative insignificance.

Spahr France S.à r.l., Riedisheim/France, a non-consolidated company, was sold.

A list of the major affiliated companies included in the consolidated financial statements as well as those valued at equity is attached as an Annex. A list of all share ownership of Multi Metal Holding GmbH has been deposited with the Commercial Register.

(4) Principles of consolidation

Capital consolidation is effected pursuant to IAS 27 (Consolidated and Separate Financial Statements)/IFRS 3 (Business Combinations), according to which the costs of acquisition are matched against the apportionable revalued equity capital at the date of acquisition, which usually coincides with the date of initial consolidation. The revalued equity capital is based on the present values of the assets and liabilities, including identified intangible assets and contingent liabilities to be carried as liabilities, at the date of acquisition. Remaining

positive differences are disclosed as goodwill, and negative differences are shown directly in the income statement.

In the course of deconsolidation, the capitalized goodwill is taken into account when calculating the gain on disposal. If companies valued at equity are deconsolidated and goodwill is disposed of, any prior setting off against the Group's earnings reserves without affecting income is retained.

There were no occurrences in the reporting year which would have affected the consolidated Group income in this way.

Write-ups and depreciation of shares in Group companies provided in the individual financial statements of consolidated companies are reversed in the consolidated financial statements. Intercompany receivables and payables of the consolidated subsidiaries are matched against each other, unrealized profits resulting from intragroup transactions are eliminated, and deferred tax assets and liabilities from the consolidation of subsidiaries having an effect on income are recognized. Intercompany sales and all intercompany income are matched against the relevant costs. Consolidation operations having an effect on income are subject to tax deferrals; deferred tax assets and liabilities are netted against each other if the payment period and tax creditor are identical.

(5) Currency translation

Applying the concept of functional currency pursuant to IAS 21 (The Effects of Changes in Foreign Exchange Rates), the annual financial statements of the foreign Group companies are translated into euros. The functional currency is determined by the primary economic environment in which the company operates. All the subsidiaries conduct their business on their domestic markets, so that the functional currency is the local currency. Consequently, the assets and liabilities are translated at the middle rate on the balance sheet date, and expenses and income are translated at the annual average rate. The translation differences resulting from these deviating translation rates applied in the balance sheet and the income statement do not affect income. Exchange differences resulting from the translation of equity capital are included in the earnings reserves of the Group.

Foreign currency receivables and liabilities are valued in the individual financial statements of the Group companies at the rates on the balance sheet date, regardless of whether they are hedged or not. Exchange gains and losses arising on the balance sheet date are recorded in profit or loss.

The exchange rate changes for the major currencies of the Group were as follows:

	<u>Year end rate</u>		<u>Average rate</u>
	<u>Dec. 31, 2005</u>	<u>March 16, 2005</u>	
1 EUR =			
US Dollar (USD)	1.1797	1.3373	1.2441
Pound Sterling (GBP)	0.6853	0.6960	0.6838
Swiss Franc (CHF)	1.5551	1.5462	1.5483
Canadian Dollar (CAD)	1.3725	1.6095	1.5088

(6) Reporting and valuation methods

Intangible assets acquired and having a determinable useful life are carried at cost less systematic straight-line amortization. The current value of intangible assets having an indeterminable useful life is reviewed once a year.

According to IFRS 3 (Business Combinations), the goodwill resulting from initial consolidation is capitalized. Negative goodwill arising from capital consolidation is immediately recorded as income at the time of the initial consolidation.

Property, plant and equipment are carried at acquisition or manufacturing cost reduced by systematic depreciation reflecting usage. The manufacturing costs comprise all direct costs as well as necessary overheads, with the exception of financing costs. Maintenance costs are directly recognized as expenses. Acquisition or manufacturing costs also include obligations related to the restoration of plant locations; corresponding provisions have been created.

In accordance with IAS 17 (Leases), leased property, plant and equipment whose leases satisfy the criteria of finance leases are capitalized in the financial statements of the lessee at the lower of the present value of the minimum lease payments and the fair value. The relevant financial obligations in respect of future leasing instalments are disclosed as liabilities.

In the case of sale-and-leaseback transactions, the amount of the sales proceeds exceeding the carrying amount is not disclosed directly as income, but deferred and released to income over the lease term.

In accordance with IAS 40 (Investment Properties), investment properties are any properties held to earn rental income or for long-term capital appreciation. These properties are carried at depreciated cost.

The current value of all intangible assets and property, plant and equipment, excluding the financial investments, is reviewed according to IAS 36 and must be adjusted if necessary. The adjustments arising from such decreases in value are disclosed in the income statement as depreciation. Except in the case of goodwill, value write-ups are effected if the reasons for the premature value decrease no longer apply. The relevant entry in the income statement is made under other operating income.

Shares in subsidiaries and other participations that are not valued at equity are classified as “held for sale” and stated at amortized cost because a fair value cannot be measured due to the lack of marketability. Long-term investments and loans are classified as “held to maturity” and similarly valued at amortized cost. Impairments according to IAS 39 are recognized by way of depreciation. Write-ups are effected when the reasons for the impairment no longer apply.

Long-term receivables and other assets are disclosed at the fair value. In view of their short duration, short-term receivables and other assets are generally recognized at cost because this more or less corresponds to the market value. All recognizable risks are allowed for by making appropriate value adjustments to cover the probable risk of non-payment, taking into account the credit insurances that are in place. Derivatives are recorded under the other receivables with their market values. If the market values are negative, they are shown as debt.

In compliance with IAS 12 (Income Taxes), deferred taxes are carried in accordance with the concept of the balance sheet liability method. Deferred tax assets result from temporary differences in the values stated in the commercial balance sheet pursuant to IFRS for consolidation purposes and the values stated in the tax balance sheet, and from consolidation operations.

Deferred tax assets also include tax reduction claims resulting from the expected use of loss carryforwards in subsequent years and whose realisation is sufficiently assured. Deferred tax assets and liabilities are offset against each other provided that the requirements are fulfilled.

Materials and supplies as well as merchandise are stated at cost, which is basically the average value adjusted on a monthly basis, allowing for depreciation to the lower net realisable value. Finished and unfinished goods are valued at manufacturing cost.

According to IAS 2 (Inventories), this comprises all directly related cost as well as appropriate and necessary overheads, with the exception of financing cost. In specific cases and when advance payments are made, the acquisition costs are determined individually.

Long-term assets held for sale and associated debts are assets and debts whose disposal within one year is deemed sufficiently probable. They are disclosed at the fair value on the balance sheet date.

The pensions and similar obligations encompass the pension obligations arising from the defined benefit plans and the defined contribution plans. In compliance with IAS 19 (Employee Benefits), the pension obligations arising from the defined benefit plans are determined by applying the projected unit credit method. Actuarial expert opinions are obtained for this purpose. Actuarial gains and losses are distributed over the average remaining service period outside a bandwidth of 10 % of the higher of the extent of the obligation and the present value of the plan’s assets. The service cost is contained in the personnel expenses, and the interest component in the interest expenses.

In accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets), and with IAS 19 (Employee Benefits) if applicable, the other provisions allow for all recognisable obligations and anticipated losses, as well as all accruals, subject to the precondition that the occurrence of a present obligation is to be expected and its amount can be reliably estimated. The present obligation is recognized at the most probable amount. Provisions are formed only on condition that they are based on a legal or factual obligation to third parties. In general, provisions with a remaining term of more than one year are discounted according to prevailing market conditions.

Contingent liabilities are potential obligations whose uncertain probability of an outflow of resources does not warrant the forming of a provision or whose amount cannot be reliably estimated. The valuation of the contingent liabilities corresponds to the extent of liability existing on the balance sheet date.

(7) Segment reporting

	Europe March 16 – Dec. 31, 2005	North America March 16 – Dec. 31, 2005	Central functions/ consolidation March 16 – Dec. 31, 2005	Total
	EUR in thousands			
External sales	3,312,725	655,848	—	3,968,573
Segmental earnings (EBITDA)	127,670	44,139	(17,567)	154,242
Investments in intangible assets and property, plant and equipment	33,826	4,021	108	37,955
Systematic depreciation of intangible assets and property, plant and equipment	27,530	5,805	14,000	47,335
Extraordinary depreciation of intangible assets and property, plant and equipment	1,658	—	—	1,658
Results from companies valued at equity	548	—	—	548

	Europe		North America		Central functions/ consolidation		Total	
	Dec. 31, 2005	March 16, 2005	Dec. 31, 2005	March 16, 2005	Dec. 31, 2005	March 16, 2005	Dec. 31, 2005	March 16, 2005
	EUR in thousands							
Segmental assets	1,816,034	2,067,123	268,987	282,937	60,381	66,438	2,145,402	2,416,498
Unallocated assets							110,606	170,936
Gross assets as per balance sheet							2,256,008	2,587,434
Segmental debt	673,539	794,550	91,550	130,436	94,405	63,923	859,494	988,909
Unallocated debt							1,073,406	1,296,465
Gross debts as per balance sheet							1,932,900	2,285,374
Employees at year-end	8,692	8,660	1,095	1,075	114	110	9,901	9,845

The multi metal distribution business is classified from a geographical perspective. Each of the markets in Europe and North America are largely similar in respect to their economic outline, suppliers and currency developments, leading to segmental figures shown for these two continents. They encompass all the companies domiciled in the two regions. In addition, all of the central functions that cannot be assigned to a segment, as well as consolidation operations, are contained in a separate column.

The sales comprise all of the sales generated by the individual companies. Sales between the segments do not exist. The EBITDA used in this context is defined as the earnings before taxes, interest, special income and expenses, depreciation of intangible assets and property, plant and equipment, and before the release of negative goodwill. It contains the results from companies valued at equity.

The segmental assets and debts contain assets and debts that contributed to the segmental earnings.

Receivables and liabilities as well as income and expenses between the segments are eliminated in the transfers.

Notes to the consolidated balance sheet

(8) Intangible assets

Besides the disclosed goodwill, the intangible assets capitalized in the consolidated financial statements largely comprise software and customer lists determined in the context of initial consolidation operations. The useful life of the intangible assets is between 2 and 10 years. Straight-line depreciation is applied and disclosed in the income statement under depreciation. Depreciation because of value decreases was not applied in the reporting year.

The goodwill arose in the reporting year and, in compliance with IFRS 3, is not systematically amortized. Amortization related to value decreases was deducted in the amount of EUR 4 thousands in the reporting year.

The intangible assets developed as follows in the period after March 16, 2005:

Acquisition or manufacturing costs

	Industrial and similar rights and assets as well as licences and other intangible assets	Software	Goodwill	Total intangible assets
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
As at March 16, 2005	14,801	9,792		24,593
Currency difference	12	(7)	(8)	(3)
Change in the consolidated Group		807	4	811
Additions		1,665	1,922	3,587
Disposal	1	200		201
Transfers				
As at Dec. 31, 2005	<u>14,812</u>	<u>12,057</u>	<u>1,918</u>	<u>28,787</u>

Accumulated depreciation and amortization

	Industrial and similar rights and assets as well as licences in such rights and assets	Software	Goodwill	Total intangible assets
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
As at March 16, 2005	3,076	7,799		10,875
Currency difference	312	(17)		295
Change in the consolidated Group		778		778
Depreciation and write-downs in financial year	1,041	981	4	2,026
Disposals	1	168		169
Additions and write-ups				
Transfers				
As at Dec. 31, 2005	<u>4,428</u>	<u>9,373</u>	<u>4</u>	<u>13,805</u>
Net book value Dec. 31, 2005	10,384	2,684	1,914	14,982
Net book value March 16, 2005	11,725	1,993		13,718

(9) Property, plant and equipment

Acquisition or manufacturing costs

	Land, land rights and buildings on third-party land	Technical equipment and machines	Other equipment, factory and office equipment	Assets under construction	Total property, plant and equipment
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
As at March 16, 2005	696,033	237,138	219,109	10,065	1,162,345
Currency difference	8,515	7,834	2,757	197	19,303
Change in the consolidated Group	2,213	6,424	2,466	119	11,222
Additions	7,052	15,426	7,743	7,545	37,766
Disposals	17,087	5,925	8,074		31,086
Transfers	4,290	1,775	1,598	(7,663)	
As at Dec. 31, 2005	<u>701,016</u>	<u>262,672</u>	<u>225,599</u>	<u>10,263</u>	<u>1,199,550</u>

Accumulated depreciation and amortization

	Land, land rights and buildings including buildings on third-party land	Technical equipment and machines	Other equipment, factory and office equipment	Assets under construction	Total property, plant and equipment
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
As at March 16, 2005	263,848	171,604	171,058		606,510
Currency difference	4,540	4,466	1,604		10,610
Change in the consolidated Group	1,336	4,532	2,155		8,023
Depreciation and write-downs in financial year	24,475	11,788	10,705		46,968
Disposals	9,579	4,729	7,221		21,529
Additions and write-ups					
Transfers					
As at Dec. 31, 2005	<u>284,620</u>	<u>187,661</u>	<u>178,301</u>		<u>650,582</u>
Net book value Dec. 31, 2005 ..	416,396	75,011	47,298	10,263	548,968
Net book value March 16, 2005	432,185	65,534	48,051	10,065	555,835

Depreciation is applied according to the straight-line method in compliance with the following useful lives applied uniformly within the Group:

	Useful life in years
Office buildings	30 – 50
Factory and warehouse buildings	20 – 40
Plant facilities similar to buildings, warehouse and crane equipment and other technical equipment	5 – 33
Factory and office equipment	3 – 15

Individual assets of minor significance are written off in the year of acquisition.

Impairments (value decreases) are recognized in compliance with IAS 36 and disclosed in the income statement under “extraordinary depreciation on fixed assets because of impairment”. In the financial year they totalled EUR 1,658 thousand, of which EUR 970 thousand are attributable to reductions in the value of buildings in Switzerland triggered by a reorganisation and the associated change of use and building demolition. A further EUR 340 thousand concerns properties and other facilities in Germany.

In accordance with IAS 40 (Investment Properties), investment properties are any properties held to earn rental income or for long-term capital appreciation. These properties are carried at depreciated cost. The carrying value corresponds to the fair value in the amount of EUR 318 thousand. The rental income from the properties covers EUR 52 thousand. The associated costs are EUR 18 thousand.

As at the closing date, the carrying amount of capitalized leased assets is EUR 12.983 million (March 16: EUR 9.283 million) for land and buildings, EUR 5.460 million (March 16: EUR 4.830 million) for technical equipment and machinery, and EUR 233 thousand (March 16: EUR 0 thousand) for vehicles, and EUR 4.889 million (March 16: EUR 2.312 million) for assets under construction. Systematic depreciation reflects the useful life, which, however, cannot exceed the term of the lease. Some of the leases include purchase options.

Material leases:

In connection with an amalgamation of sites in Valencia/Spain, properties were already leased in 2004. Their carrying value on Dec. 31, 2005 is EUR 6,312 thousand. The lease contains a purchase option. The building is disclosed with a value of EUR 2,312 thousand under assets under construction.

A lease concerning properties in Catalayud/Spain was also concluded in 2004. It is carried with a value of EUR 1,027 thousand. Another lease, concluded in 2005, concerns the Epila site in Spain. It is carried with a value of EUR 4,792 thousand. This lease also contains a purchase option.

The carrying value of the leased assets includes two buildings in Austria (Vienna and Neumarkt) in the amount of EUR 2,704 thousand. Their leases contain purchase options.

Leases exist in Canada for two processing plants with an aggregate value of EUR 4,549 thousand. These leases also contain purchase options.

Operating leases mainly relate to real estate, machinery, vehicles, telephone systems and computer hardware. The leases include purchase options in some cases. Contingent lease payments affecting income, as well as payments under non-terminable subleases are of minor significance.

(10) Financial assets

The financial assets are classified as follows:

	<u>Dec. 31, 2005</u>	<u>March 16, 2005</u>
	EUR in thousands	EUR in thousands
Shares in affiliated companies	1,228	1,163
Shares in other participations	1,855	1,452
Long-term investments	1,218	928
Other loans	<u>237</u>	<u>342</u>
Financial assets	<u>4,538</u>	<u>3,885</u>

In the reporting year the depreciation because of impairment totalled EUR 100 thousand. No write-ups were made.

In accordance with IAS 31 (Interests in Joint Ventures), two joint ventures are valued by the equity method that is alternatively permitted. The carrying values as at Dec. 31, 2005 are EUR 953 thousand. The joint ventures are contained in the list of participations. Associated companies are included in the consolidated financial statements only at cost because of minor significance.

(11) Other long-term assets

	<u>Dec. 31, 2005</u>	<u>March 16, 2005</u>
	EUR in thousands	EUR in thousands
Reinsurance claims from pension funds	5,651	7,910
Employer contribution reserves, Switzerland	4,745	4,628
Other assets	<u>1,090</u>	<u>2,253</u>
Receivables and other assets with a remaining term of more than 1 year	<u>11,486</u>	<u>14,791</u>

(12) Deferred tax assets

The deferred tax assets are explained in section 15 (Income taxes).

(13) Inventories

	<u>Dec. 31, 2005</u>	<u>March 16, 2005</u>
	EUR in thousands	EUR in thousands
Materials and supplies	49,982	61,399
Unfinished goods and services	4,056	11,323
Finished goods and merchandise	636,562	807,143
Advance payments	<u>2,869</u>	<u>1,471</u>
Inventories	<u>693,469</u>	<u>881,336</u>

Of the inventories shown in the balance sheet as at Dec. 31, 2005, EUR 208,779 thousand are stated at their net realisable values. The depreciation to the net realisable value totals EUR 45,727 thousand.

Besides the customary commercial reservations of title, inventories with a carrying value of EUR 20,055 thousand serve as security for individual financial liabilities.

(14) Trade receivables

Trade receivables are generally invoiced in the local currency of the relevant Group company; export receivables in foreign currencies are hedged as a general principle.

(15) Income taxes

Income taxes are effective taxes actually paid or payable in the individual countries on income, as well as deferred taxes arising from valuation differences between the disclosures according to IFRS on the one hand, and national fiscal law on the other, and such taxes on loss carryforwards.

Effective taxes

The income tax liabilities are classified as follows:

	<u>Dec. 31, 2005</u>	<u>March 16, 2005</u>
	EUR in thousands	EUR in thousands
Provisions	19,473	20,625
Liabilities	<u>120</u>	<u>22,488</u>
Tax liabilities	<u>19,593</u>	<u>43,113</u>

The amounts and due dates of the tax liabilities contained in the tax provisions are uncertain. Tax liabilities are disclosed as such if assessment notices already exist on the balance sheet date and the amounts and due dates are known.

Deferred taxes

Deferred taxes are calculated according to the relevant national tax rates applicable on the balance sheet date or announced for the following year. The deferred taxes are recorded in the income statement, excepting those attributable to issues that are recorded under equity without affecting income. These are shown, likewise without affecting income, under equity.

The deferred tax assets are as follows:

	<u>Dec. 31, 2005</u>	<u>March 16, 2005</u>
	EUR in thousands	EUR in thousands
From temporary differences	9,920	16,825
From tax loss carryforwards	<u>5,505</u>	<u>2,543</u>
Deferred tax assets	<u>15,425</u>	<u>19,368</u>

Deferred taxes are determined according to IAS 12 at the tax rates expected in the individual countries at the date of realisation. The deferred taxes are as follows:

	<u>Dec. 31, 2005</u>	<u>March 16, 2005</u>
	EUR in thousands	EUR in thousands
— From temporary differences and consolidation operations		
Intangible assets	5	5
Property, plant and equipment	683	634
Financial assets	417	627
Inventories	1,958	372
Provisions for pensions	15,662	17,641
Other provisions	(9,068)	(4,326)
Other items	<u>263</u>	<u>1,872</u>
	9,920	16,825
— From tax loss carryforwards	<u>5,505</u>	<u>2,543</u>
Deferred tax assets	<u>15,425</u>	<u>19,368</u>

Deferred tax income is recognized in respect of tax loss carryforwards only on condition that the realization of such income can be expected with sufficient likelihood. Previously unused tax loss carryforwards amount to

EUR 285.5 million. Tax loss carryforwards amounting to EUR 262.5 million were not recognized because it is not sufficiently likely that they will be used.

The deferred tax liabilities are as follows:

	<u>Dec. 31, 2005</u>	<u>March 16, 2005</u>
	EUR in thousands	EUR in thousands
— From temporary differences and consolidation operations		
Intangible assets	2,676	3,016
Property, plant and equipment	54,183	58,729
Receivables and other assets	1,874	1,651
Inventories	15,733	14,543
Assets held for sale	7,000	8,046
Provisions for pensions	(1,082)	(351)
Other provisions	1,105	(235)
Other items	<u>1,408</u>	<u>1,618</u>
Deferred tax liabilities	<u>82,897</u>	<u>87,017</u>

(16) Other short-term assets

	<u>Dec. 31, 2005</u>	<u>March 16, 2005</u>
	EUR in thousands	EUR in thousands
Receivables from affiliated companies	1,004	4,584
Receivables from companies in which participations are held	21	157
Receivables from insurance companies	7,701	2,934
Commission claims	9,519	4,751
Other assets	<u>33,107</u>	<u>49,563</u>
Receivables and other assets with a remaining term of less than 1 year	<u>51,352</u>	<u>61,989</u>

Based on their short duration, the carrying values of the short-term receivables and other assets correspond to the fair values.

(17) Assets held for sale

The assets held for sale primarily consist of a facility in Spain (EUR 20,000 thousand) that is to be sold in the first quarter of 2006 for location policy reasons. In Switzerland, land and buildings no longer used for operating purposes is disclosed with an fair value of EUR 2,390 thousand.

(18) Equity and minority interests

The subscribed capital of Multi Metal Holding GmbH totals EUR 25 thousand. The capital reserves amount to EUR 44,649 thousand.

The earnings reserves include the results generated in the financial year by the companies included in the consolidated financial statements, to the extent that no distributions are made outside the Group, as well as effects on equity from consolidation operations.

Minority interests comprise outside interests in the consolidated equity capital of the included companies.

The development of the individual components of the consolidated equity capital and minority interests for the fiscal year from March 16, 2005 to December 31, 2005 is shown in the consolidated development of shareholders' equity and minority interests.

(19) Provisions for pensions and similar obligations

Different types of pension scheme have been established for most employees in the Klöckner & Co Group, depending on the legal, the economic and the fiscal situation in the country concerned. They are usually based on the length of service and the employees' remuneration.

The company pension scheme within the Group consists of commitments based on both defined contribution plans and defined benefit plans.

In the case of defined contribution plans, the company pays contributions to private or public pension institutions on the basis of statutory or contractual provisions. Making the payment discharges the company from all its performance (benefit) obligations. The associated expenses in the financial year were EUR 8,028 thousand. This total includes employers' contributions to the statutory pension scheme in Germany in the amount of EUR 5,450 thousand.

Defined benefit plans are pension systems that can be funded or unfunded (financed by provisions). In compliance with IAS 19 (Employee Benefits), the resultant pension provisions are determined by applying the projected unit credit method, according to which the future obligations accrued at the valuation date are valued on the basis of actuarial procedures by estimating the relevant factors. The benefits to be expected on occurrence of the insured event, including dynamic components, are distributed over the entire employment period of the employee. The following assumptions were made in the financial year regarding the relevant parameters for the actuarial calculations underlying the expert opinions:

	<u>Germany</u>	<u>Austria</u>	<u>Switzerland</u>	<u>Netherlands</u> in %	<u>Great Britain</u>	<u>France</u>	<u>USA</u>
Discount rate	4.25	4.25	3.00	4.00	4.80	4.00	5.75
Expected growth rate of wages and salaries	1.70	1.70	1.50	2.00	4.40	2.00	3.50
Rate of inflation	2.00	2.00	0.00	2.00	2.90	2.00	3.50
Average rate of employee turnover	6.00	6.00	7.38 – 9.42	grad.	2.90	grad.	
Expected return on plan assets	4.50	—	4.50	5.68	6.75 – 7.30	3.50	8.00

The pension obligations of the German Group companies arising from defined benefit plans are financed almost exclusively by provisions, whereas those of the foreign subsidiaries are predominantly financed by external funds. Indirect obligations not covered by the fund assets are allocated to provisions; actuarial gains are recognized to an amount that reflects the probable benefit to the company in the form of lower future payments into the fund. The obligations and the relevant fund assets are valued at regular intervals not exceeding three years as a general rule. The defined benefit pension systems are structured as follows:

	<u>Dec. 31, 2005</u> EUR in thousands	<u>March 16, 2005</u> EUR in thousands
Present value of unfunded obligations from defined benefit plans	170,073	171,341
Present value of completely or partly funded obligations from defined benefit plans	417,522	390,884
Plan assets at market values	408,482	385,936
Balance of unrecognized actuarial gains and losses	(17,270)	
Past service cost not yet recognised in the balance sheet	2,772	
Amounts not recognized as an asset because of the limitation imposed by IAS 19.58 (b)	24,471	23,617
Fair value of the future reimbursements recognized as an asset pursuant to IAS 19.104A	1,924	1,705
Balance of pension obligations	187,162	198,201
Other assets	5,700	10,654
Provisions for pensions and similar obligations	192,862	208,855

The recognized reimbursement claims contain concluded life insurances in the amount of EUR 1,635 thousand and claims arising from other insurances concluded to cover the relevant pension obligations.

The pension expenses comprise the relevant personnel expenses and the interest expenses, which are one component of the net interest:

	<u>March 16 – Dec. 31, 2005</u>
	EUR in thousands
Current service cost	(13,481)
Interest expenses of companies with funded pension obligations	(11,433)
Anticipated income from plan assets	15,047
Anticipated income from reimbursement claims	22
Actuarial losses	(1,003)
Recalculated service cost	2
Effect of plan curtailments and settlements	6,318
Interest expenses for unfunded pension obligations	<u>(4,675)</u>
Total expenses for defined benefit pension obligations	(9,203)
Net gains from plan assets	30,891

The plan assets comprise:

	<u>Dec. 31, 2005</u>
	EUR in thousands
Shares	207,425
Notes	10,833
Cash and cash equivalents	2,033
Other assets	115,892
Real estate	<u>72,299</u>
	<u>408,482</u>

The amounts not yet recognized in the balance sheet have arisen from actuarial gains or losses from portfolio changes and differences between assumptions and actual developments, and from plan curtailments and settlements. With the exception of the expenses from plan curtailments and settlements, which are recognized immediately as expenses, other expenses outside the 10% corridor are as a general rule distributed over the average remaining working life of the employees (amortization) in compliance with IAS 19.

The obligations similar to pensions include obligations for compensation payments and, in Germany, provisions for future contributions to the pension guarantee association (*Pensionssicherungsverein*) provided these are formed in respect of obligations relating to current benefits. They are likewise determined on the basis of actuarial principles.

(20) Other long-term provisions

The other long-term provisions developed as follows in the period from March 6 to December 31, 2005:

	<u>Status as at</u> <u>March 16, 2005</u>	<u>Additions</u>	<u>Utilized</u>	<u>Releases</u>	<u>Other</u> <u>changes^(*)</u>	<u>Status as at</u> <u>Dec. 31, 2005</u>
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Other provisions for						
— service anniversaries	13,167	526		97	58	13,654
— liability risks	11,728			208		11,520
— restructuring	405			102		303
— early retirement arrangements	9,925	1,261	1,641	1,173	(133)	8,239
— other accruals	<u>21,685</u>	<u>340</u>	<u>575</u>		<u>159</u>	<u>21,609</u>
Other provisions	<u>56,910</u>	<u>2,127</u>	<u>2,216</u>	<u>1,580</u>	<u>84</u>	<u>55,325</u>

(*) Change to scope of consolidation, currency adjustments, transfers and additions/disposals to third parties

The other accruals contain EUR 15,000 thousand for a potential liability case and EUR 3,198 thousand in compensation payments to former employees.

(21) Financial liabilities

The table below illustrates the composition of the short and long-term financial liabilities:

	<u>up to 1 year</u>	<u>1 – 5 years</u>	<u>more than 5 years</u>	<u>Dec. 31, 2005</u>
Notes	3,433		249,812	253,245
(16.03)				
Liabilities to banks	76,748	122,882		199,630
(16.03)	(179,965)	(63,590)	(549,294)	(792,849)
Liabilities from ABS programs		145,645		145,645
(16.03)				
Liabilities from finance leases	2,819	9,005	7,059	18,883
(16.03)	(2,020)	(7,149)	(4,476)	(13,645)
Liabilities to affiliated companies	106,823	54,376		161,199
(16.03)	(151,025)			(151,025)
Total	189,823	331,908	256,871	778,602
(16.03)	(333,010)	(70,739)	(553,770)	(957,519)

Of the financial liabilities disclosed in the consolidated balance sheet, a total of EUR 121,201 thousand is secured by mortgages. Liens in favour of the bond creditors have been created on the shares in the acquisition companies.

In May 2005 Klöckner Investment SCA issued a senior note with a nominal volume of EUR 260,000 thousand. This bullet note matures on May 15, 2015 and carries a fixed coupon of 10.5% p.a., payable every six months. Allowing for the transaction costs of the issue, the effective interest rate is 11.20% p.a. As of the balance sheet date the note was quoted at EUR 114.50. The proceeds from the note placement were used, together with accrued internal funds, to redeem the mezzanine loan in the amount of EUR 300,000 thousand.

In July 2005 the Klöckner & Co Group issued a global asset-backed securitization program running for five years with a program volume of EUR 420,000 thousand, of which EUR 152,690 thousand had been used by the balance sheet date. Subscriptions to the program are to be recorded in the balance sheet as loans because it does not meet the requirements of IAS 39 as regards the disposal and elimination of the receivables. The proceeds from selling receivables were used to redeem the senior term and working capital credits (revolver credit facility) extended by the banks in the context of the acquisition.

The liabilities to banks exclusively comprise bilateral borrowings of the country operations, which are predominantly used as working capital finance.

Liabilities from finance leases are stated in the balance sheet at the present value of the future leasing instalments.

The financial liabilities of EUR 617,403 thousand have a fair value of EUR 677,982 thousand.

The financing costs directly associated with contracting the financial liabilities were set off against the loan commitments. The total amount concerned is EUR 20,444 thousand.

The liabilities to affiliated companies are payable to Multi Metal Investment S.à r.l., Luxembourg, in respect of granted loans and interest payment obligations arising from same.

(22) Other long-term liabilities

The other long-term liabilities, in the amount of EUR 1,185 thousand (March 16: EUR 4,757 thousand), have a remaining term of 1 to 5 years.

(23) Deferred tax liabilities

Information on the deferred tax liabilities is contained in section 15 (Income taxes).

(24) Short-term provisions

	<u>Status as at March 16, 2005</u>	<u>Additions</u>	<u>Utilized^(**)</u>	<u>Releases</u>	<u>Other changes^(*)</u>	<u>Status as at Dec. 31, 2005</u>
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Other provisions for						
— other taxes	206	2,329	321		20	2,234
— personnel obligations	46,104	9,233	9,423	3,883	884	42,915
— liability risks	51,498	4,785	50,033	1,859	1,183	5,574
— anticipated losses from onerous contracts	3,117	1,552	1,333	157	6	3,185
— restructuring	13,816	13,109	2,065	268	25	24,617
— early retirement arrangements	6,131	734	2,923	170	(244)	3,528
— other accruals	<u>84,541</u>	<u>30,789</u>	<u>11,506</u>	<u>3,587</u>	<u>2,895</u>	<u>103,132</u>
Other provisions	<u>205,413</u>	<u>62,531</u>	<u>77,604</u>	<u>9,924</u>	<u>4,769</u>	<u>185,185</u>

(*) Change to scope of consolidation, currency adjustments, transfers and additions/disposals to third parties

(**) Including advance payments

The provisions for personnel obligations contain provisions for special benefits and bonuses in the amount of EUR 25,194 thousand (March 16: EUR 26,473 thousand) and for holiday entitlements and flexitime credits in the amount of EUR 14,898 thousand (March 16: EUR 17,229 thousand).

Of the disclosed provisions for liability risks, a provision of EUR 34,653 thousand exists as of March 16, 2005 relating to a special-purpose vehicle of the Balli Group that was created for settlement purposes in connection with the sale of the trading activities in 2000. The warranty was enforced in 2005 and a charge was made against the provision.

The provision for anticipated losses from onerous contracts is based on purchase and sale contracts in the commercial business and other contracts.

The provisions for restructuring relate to obligations in respect of redundancy compensation schemes and other restructuring expenses.

The provisions for other accruals mainly comprise provisions for pending purchase invoices in the amount of EUR 38,045 thousand, for legal proceedings in the amount of EUR 9,789 thousand, and for liability risks in the amount of EUR 22,644 thousand, as well as other provisions in the amount of EUR 32,654 thousand, being chiefly for environmental protection and decontamination measures, auditor's fees, insurance premiums, rebates and discounts, commission and other risks.

(25) Income tax liabilities

Information on the income tax liabilities is contained in section 14 (Income taxes).

(26) Trade payables

	<u>Dec. 31, 2005</u>	<u>March 16, 2005</u>
	EUR in thousands	EUR in thousands
Advance payments received on orders	456	531
Trade payables	480,726	545,154
Notes payable	54,873	68,058
Trade payables	<u>536,055</u>	<u>613,743</u>

The carrying amounts of the trade payables correspond to the fair values.

(27) Other short-term liabilities

The liabilities are stated at amortized cost. Foreign currency liabilities are carried at the current market rate on the balance sheet date.

	<u>Dec. 31, 2005</u>	<u>March 16, 2005</u>
	EUR in thousands	EUR in thousands
Liabilities to affiliated companies		1,443
Liabilities to companies in which participations are held	127	380
Liabilities relating to social security	11,415	10,943
Value-added tax liabilities	24,573	24,383
Other tax liabilities	8,183	11,042
Other liabilities	<u>36,899</u>	<u>59,856</u>
Liabilities with a remaining term of up to 1 year	<u>81,197</u>	<u>108,047</u>

The carrying amounts of the short-term liabilities correspond to the fair values.

(28) Contingent liabilities

The contingent liabilities on the balance sheet date are as follows:

	<u>Dec. 31, 2005</u>	<u>March 16, 2005</u>
	EUR in thousands	EUR in thousands
Liability on bills	54	
Liabilities from warranty contracts	722	722

(29) Other financial commitments

Other financial commitments relate, in particular, to leases and long-term rental agreements.

The commitments also include contracts governing leased objects that are capitalized as assets in the consolidated financial statements (finance leases). A breakdown of the leased objects is contained in section 8 (Property, plant and equipment). The minimum amount of future finance lease payments is due as follows:

	<u>Dec. 31, 2005</u>	<u>March 16, 2005</u>
	EUR in thousands	EUR in thousands
Due within one year	3,938	2,870
Due between one and five years	10,005	7,209
Due after more than five years	<u>5,566</u>	<u>3,912</u>
Nominal total of future minimum lease payments	<u>19,509</u>	<u>13,991</u>
Due within one year	117	80
Due between one and five years	914	652
Due after more than five years	<u>934</u>	<u>680</u>
Interest component included in future minimum lease payments	<u>1,965</u>	<u>1,412</u>
Due within one year	3,821	2,790
Due between one and five years	9,091	6,557
Due after more than five years	<u>4,632</u>	<u>3,232</u>
Present value of future minimum lease payments	<u>17,544</u>	<u>12,579</u>

Further obligations exist within the Multi Metal Holding Group relating to contracts classified as non-terminable operating leases. The future payments to be made under these leases are as follows:

	<u>Dec. 31, 2005</u>	<u>March 16, 2005</u>
	EUR in thousands	EUR in thousands
Due within one year	24,840	13,246
Due between one and five years	49,995	47,322
Due after more than five years	<u>28,987</u>	<u>30,380</u>
Nominal total future minimum lease payments	<u>103,822</u>	<u>90,948</u>

The commitments for investments in fixed assets amount to EUR 1,679 thousand.

(30) Derivative financial instruments

Derivative financial instruments are presented at the fair value in compliance with IAS 39 (Financial Instruments).

The Multi Metal Holding Group is exposed to interest and currency risks in its business operations. Derivative financial instruments are used to hedge against such risks. Only marketable instruments offering sufficient market liquidity are used. The derivative financial instruments are transacted and managed in compliance with internal directives that prescribe the scope of action, responsibilities and control systems. According to these directives, the use of derivative financial instruments is a key task of the central finance department of Klöckner & Co GmbH, which manages and coordinates such use. The transactions are concluded exclusively with counterparties that have a first-class credit rating. Derivative financial instruments are not used for speculative purposes, but exclusively for hedging risks associated with underlying transactions.

The Multi Metal Holding Group operates a central foreign currency management. The object of the hedging policy is exclusively to cover transaction risks. The German and foreign companies are obliged to identify foreign exchange risks and to hedge against same through the central finance department or, within a prescribed framework, individually via banks. The hedging transactions cover exchange risks deriving from pending and recorded delivery contracts recorded at the balance sheet date.

The risk of interest rate changes is also monitored centrally within the Multi Metal Holding Group. Interest hedging instruments are used to reduce or limit the impact of interest rate changes on the financing costs for variable-interest long-term loans.

Forward exchange transactions are valued on an item-by-item basis at the forward rate on the balance sheet date, and exchange rate differences arising because of the contracted forward exchange rate are included in the income statement.

Interest swap amounts from interest swap agreements are recorded to net income at the date of payment or balance sheet date. In addition, interest swap agreements as well as interest caps are carried at their fair value as at the balance sheet date, and changes in the fair values are recognized in the income statement for the current reporting period. The fair values of the derivative transactions are capitalized as other assets or shown as other liabilities, as applicable. The Multi Metal Holding Group has opted not to apply hedge accounting according to IAS 39.

The nominal and fair values of the derivative financial instruments existing as at the balance sheet date are as follows:

Nominal values

	<u>Dec. 31, 2005</u> EUR in millions	<u>March 16, 2005</u> EUR in millions
Forward exchange transactions	15.4	9.7
Interest rate swaps	21.3	72.7
Interest rate caps	102.3	237.6
Other interest hedging instruments	42.4	60.0

Fair values

	<u>Dec. 31, 2005</u> EUR in millions	<u>March 16, 2005</u> EUR in millions
Forward exchange transactions	(0.1)	(1.5)
Interest rate swaps	(0.8)	(1.8)
Interest rate caps		
Other interest hedging instruments	(0.4)	

The nominal values correspond to the unbalanced total of the currency and interest rate portfolio.

The fair values shown in the table correspond to the price at which third parties would pay for the rights or obligations deriving from the financial instruments. The fair values are the current market values of the derivative financial instruments, ignoring any contrary changes in value in the underlying transactions. The fair values of the derivative financial instruments used are determined on the basis of banks' quoted market prices or with financial formulae based on models commonly used by banks.

The currency derivatives have a remaining term of up to one year. The interest rate derivatives have a remaining term of one to five years. As of March 16, 2005 interest rate derivatives with a volume of EUR 122.9 million existed in this term category. The interest hedging instruments expire in 2010 at the latest. The interest rate swaps are used by our North American and Swiss subsidiaries and provide for the payment of fixed interest rates ranging between 3.90% and 5.90% p.a. against a 3-month or 6-month reference interest rate. Klöckner & Co GmbH uses interest caps, predominantly in the form of two-strike caps; the strike prices lie in the range from 6.0% p.a. to 9.0% p.a.

In July 2005 the Multi Metal Holding Group issued a global asset backed securitization program (ABS) with a term of five years and a program volume of EUR 420 million. The ABS program comprises a European program with the country operations in Germany, Great Britain, France and Spain, with a volume of EUR 380 million, and an American program in the amount of USD 50 million. The trade receivables are sold by the participating ABS companies to two special purpose vehicles (SPVs). The ABS programs do not meet the requirements of IAS 39 with regard to the disposal and thus the elimination of the receivables (on-balance-sheet treatment). Since the European SPV engages in business exclusively in favour of the Multi Metal Holding Group, SIC 12 requires it to be included in the consolidated financial statements of Multi Metal Holding GmbH. The American SPV is already included in the annual financial statements of the American sub-group as a subsidiary of Namasco Corp. The funding of the purchased receivables by the SPVs is therefore shown in the consolidated financial statements as loans to the conduits.

In July 2005 the loans arising from the ABS financing were used to pay off the loans raised on March 16, 2005 under the senior credit agreement. At the balance sheet date, EUR 152.7 million of the programmes had been used; the amount is distributed as follows:

ABS programs

	<u>Dec. 31, 2005</u>
European program:	EUR in millions
— Use	112.0
— Maximum volume	380.0
American program:	USD in millions
— Use	48.0
— Maximum volume	50.0

The carrying value of the net receivables of the companies participating in the ABS programs as of December 31, 2005 is EUR 629 million.

(31) Sales

Sales are recognized on transfer of the significant risks and rewards of ownership. The sales are generated by:

	<u>March 16 – Dec. 31, 2005</u>
	<u>EUR in thousands</u>
Sale of goods	3,956,206
Performance of services	12,367
Total sales	<u>3,968,573</u>

Group sales are broken down by region as follows:

	<u>March 16 – Dec. 31, 2005</u>
	EUR in thousands
Germany	941,802
EU without Germany	1,798,413
Rest of Europe	512,939
North America	658,534
Central and South America.....	2,175
Asia/Australia	12,284
Africa	<u>42,426</u>
Sales by regions	<u>3,968,573</u>

(32) Other operating income

	<u>March 16 – Dec. 31, 2005</u>
	EUR in thousands
Exchange gains	8,728
Reversal of provisions	10,331
Income from the disposal of fixed assets.....	4,588
Income from receivables written off.....	6,004
Rental income	1,576
Income from the release of negative goodwill.....	2,677
Other income	<u>24,547</u>
Other operating income	<u>58,451</u>

Besides the release of the negative goodwill disclosed under other operating income, the negative goodwill arising from the initial consolidation of the entire Group as of March 16, 2005 is shown in the amount of EUR 147,094 thousand under a separate item. The other income largely comprises bonus income (EUR 4,798 thousand) and several income items each in the amount of less than EUR 1.5 million.

(33) Cost of materials

	<u>March 16 – Dec. 31, 2005</u>
	EUR in thousands
Cost of raw materials and supplies and of purchased merchandise	3,171,150
Cost of purchased services	<u>5,700</u>
Cost of materials	<u>3,176,850</u>

(34) Personnel cost

	<u>March 16 – Dec. 31, 2005</u>
	EUR in thousands
Wages and salaries	287,733
Social security contributions and expenditure on welfare.....	61,082
Pension cost	<u>7,725</u>
Personnel cost	<u>356,540</u>

Annual average number of employees:

	<u>March 16 – Dec. 31, 2005</u> EUR in thousands
Salaried employees	5,502
Wage earners	4,108
Apprentices	288
Trainees, military and civilian service recruits etc.	<u>162</u>
Average workforce.....	<u><u>10,060</u></u>

(35) Other operating expenses

	<u>March 16 – Dec. 31, 2005</u> EUR in thousands
Forwarding costs	75,074
Rents and leasing.....	46,520
Repairs and maintenance.....	33,841
Supplies	24,363
Third-party services.....	23,094
Auditing and consulting costs.....	22,737
Other taxes.....	15,330
Cost of travel	12,712
Postal charges and telecommunications	8,478
Credit insurances	7,582
Insurances.....	7,052
Advertising and representational expenses.....	6,190
Exchange rate losses	6,006
Losses on receivables	5,298
Other expenses	<u>37,764</u>
Other operating expenses	<u><u>332,041</u></u>

The principal items contained in the other expenses are voluntary welfare expenditure (EUR 4,861 thousand), expenses arising from ancillary business (EUR 4,770 thousand) and incidental payment transaction costs (EUR 4,141 thousand).

(36) Release of negative goodwill

The first-time consolidation of the Multi Metal Holding Group gave rise to a release of negative goodwill in the amount of EUR 147,094 thousand. It was calculated as follows:

	<u>EUR in thousands</u>
Purchase price incl. incidental acquisition costs	338,205
less acquired equity of acquired Group companies as of March 16, 2005	<u>485,299</u>
Negative goodwill.....	<u><u>147,094</u></u>

(37) Restructuring expenses

In response to changed market conditions in Germany, a restructuring program that envisages site closures was initiated in the financial year. The formation of provisions and the costs already incurred for redundancies and additional local measures give rise to total expenses of EUR 17,100 thousand.

(38) Results from divestment

The net loss from divestment, in the amount of EUR 1,873 thousand, is attributable to follow-up income and expenses related to the sale of the trading activities in 2000.

(39) Income from investments

	<u>March 16 – Dec. 31, 2005</u>
	EUR in thousands
Income from participations	91
Results from companies valued at equity	548
Write-downs on investments	(100)
Loss transfers	(145)
Income from investments	<u><u>394</u></u>

(40) Net interest

	<u>March 16 – Dec. 31, 2005</u>
	EUR in thousands
Income from other investments and long-term loans	14
Other interest and similar income	3,537
— of which from affiliated companies	77
Interest and similar expenses	(47,785)
— of which from affiliated companies	(8,680)
Interest expenses from changes in pension provisions	<u>(4,675)</u>
Net interest	<u><u>(48,909)</u></u>

(41) Transaction costs

The financing costs in the amount of EUR 36,181 thousand refer to the external costs incurred in connection with arranging the financing (senior debt and mezzanine) as per March 16, 2005. During 2005 the senior term and mezzanine loans were redeemed in full by way of a global ABS program and the issue of a senior note.

Since the contractual provisions of the new forms of finance differ substantially from those governing the preceding funding vehicles, IAS 39.40 requires the transaction costs of the senior and mezzanine loans no longer to be spread over the original loan periods, but to be eliminated from the accounts with an effect on income at the time of refinancing. This special effect is recorded under transaction costs.

The transaction costs attributable to the senior note issue and the initiation of the global ABS program are distributed pro rata over the term of the funding vehicles and recorded in the financial result as financing costs.

(42) Income taxes

The income taxes comprise taxes actually paid or payable on income, as well as changes in deferred taxes.

The use of tax loss carryforwards gave rise to an increase in income tax expense in the amount of EUR 116 thousand following the release of deferred tax assets; the formation of new deferred taxes on loss carryforwards led to a deferred tax benefit of EUR 2,646 thousand.

The income tax expenses of the Group amount to:

	<u>Dec. 31, 2005</u>
	EUR in thousands
Effective income taxes	16,077
Deferred income taxes	<u>(133)</u>
Income taxes	<u><u>15,944</u></u>

Taking corporate income tax and trade income tax into account, the tax rate for the German parent company of the Group is 39% at the year-end, which would correspond to expected tax expenditure of EUR 58,873 thousand. The effective tax expenditure amounts to EUR 15,944 thousand, which corresponds to an average actual tax rate of 10.56%. The difference results largely from the reversal of the negative goodwill in the amount of EUR 147,094 thousand, without effect on tax, arising from the initial consolidation. In addition, foreign tax

rates are usually lower than the German tax rate of 39%. The difference between the tax expenses according to the domestic tax rate and the actual tax expense within the Group arises as follows:

	<u>Dec. 31, 2005</u>
	EUR in thousands
Expected tax expenditure at German domestic tax rate	58,873
Tax reduction due to deviating foreign tax rates	(6,849)
Tax rate changes	(1,083)
Tax reduction due to tax-exempt income	(898)
Tax increase due to non-deductible expenses	856
Reversal of negative goodwill	(58,273)
Fiscal effect of tax consolidation (Group relief/fiscal unity)	(3,979)
Tax increase due to non-capitalisation of losses and temporary differences	27,919
Other fiscal effects	<u>(622)</u>
Actual income taxes	<u>15,944</u>

(43) Notes to the cash flow statement

The cash flow statement is presented according to IAS 7 (Cash Flow Statements). It shows the source and use of the cash flows. The cash flow statement is key to a proper assessment of the financial position of the Multi Metal Holding Group.

The changes in balance sheet items that underlie the cash flow statement are not immediately identifiable from the balance sheet because the effects of currency translation and changes in the scope of consolidation are eliminated when the cash flows are calculated.

Operating activities produced revenue of EUR 196,327 thousand in fiscal 2005. The profit and financial situation, buoyed by the continued strength of the steel economy, is reflected in the cash flow of EUR 86,848 thousand before changes in the current assets and liabilities, and before income tax payments and transaction costs.

The 2005 financial year opened with slack demand in view of the stock cycle; inventories were initially excessively high. By way of strict stock management, the large amount of funds tied up in working capital was significantly reduced during the year. After allowing for currency effects of EUR 17,932 thousand, the working capital decreased by EUR 222,363 thousand to EUR 957,020 thousand by the end of 2005.

Changes

	<u>March 16 – Dec. 31, 2005</u>
	EUR in thousands
Inventories	220,312
Trade receivables	114,180
Trade payables	<u>(112,129)</u>
Working capital	<u>222,363</u>

The ABS transactions were recognized in the balance sheet of the Multi Metal Holding Group. The changes in trade receivables sold are included in the figures above.

The cash flow from operating activities contains a separate amount of EUR 47,279 thousand in respect of income tax payments.

Investments and divestments led to EUR 43,923 thousand in net cash being used in 2005. The proceeds from disinvestment activities in the amount of EUR 11,756 thousand refer primarily to real estate asset disposals by the sub-groups in Spain, Germany and Canada.

The payments for investments total EUR 55,679 thousand. They relate in particular to the acquisitions in France and Switzerland, and to modernising and expanding existing warehousing sites. The outflow of funds from investment activities was entirely covered by depreciation.

The purchase prices paid for the acquired companies are matched by cash and cash equivalents in the amount of EUR 1,547 thousand. Information on the acquired assets and debts are contained in section 3 (Scope of consolidation). The cash and cash equivalents are contained in the short-term assets.

The cash flow from operating activities was used to reduce the financial liabilities. Allowing for the capital injection by the shareholder of EUR 38,494 thousand, the dividend payments to minority interests of EUR 11,613 thousand, the net interest of EUR 29,483 thousand, the increase in liabilities to the shareholder of EUR 1,507 thousand and, in particular, the raising and redemption of financial liabilities of EUR 221,789 thousand, the net cash used in financing activities is EUR 222,884 thousand. The cash flow from financing activities was influenced by initial consolidation and exchange rate effects in the amount of EUR 27,741 thousand.

The cash and cash equivalents include cheques, cash in hand and bank balances are valued at EUR 79,551 thousand at the close of 2005. Foreign currency balances are carried at the bid price on the balance sheet date. The cash and cash equivalents contain bank balances of EUR 14,650 thousand belonging to the special-purpose entities consolidated according to SIC 12, whose business is conducted exclusively for the country operations participating in the ABS program.

Offsetting the cash and cash equivalents against the financial liabilities gives rise to the following net cash indebtedness of the Group:

	<u>Dec. 31, 2005</u>	<u>March 16, 2005</u>
	EUR in thousands	EUR in thousands
Financial liabilities	778,602	957,519
(including liabilities to shareholder)	(161,199)	(151,025)
Transaction costs	20,444	36,181
Cash and cash equivalents	<u>(79,551)</u>	<u>(146,240)</u>
Net cash indebtedness (before transaction costs)	<u>719,495</u>	<u>847,460</u>

As regards risk management, the risk coverage policies were operated without change. Business conducted in foreign currency is covered by appropriate rate hedging transactions. We offset credit risks with our own credit management system and by taking out credit insurance. Approximately 70% of the trade receivables were covered by credit insurance in the financial year.

(44) Related party disclosures

The Group parent company publishing financial statements is Multi Metal Holding GmbH, Duisburg, which is registered in the Commercial Register of Duisburg Local Court under No. HRB 17571. The most senior controlling company in the meaning of IAS 24.12 is Lindsay Goldberg & Bessemer L.P., New York/USA.

In the reporting year the members of the Management Board of Multi Metal Holding GmbH received emoluments totalling EUR 988 thousand from Group companies. The emoluments contain exclusively short-term payables.

In the reporting period the following business was transacted with related parties:

(a) Business with the parent company:

In the reporting period the shareholder, Multi Metal Investment S.à r.l., Luxembourg, contributed to the capital reserves of Multi Metal Holding GmbH in the amount of EUR 38,494 thousand. This includes a capital contribution of EUR 16,000 thousand.

In the reporting year the shareholder, Multi Metal Investment S.à r.l., Luxembourg, granted Multi Metal Holding GmbH an indefinite loan in the amount of EUR 24,000 thousand, which does not carry interest until December 31, 2005.

In addition, by way of a loan conversion, an amount of EUR 22,493 thousand was contributed to the capital reserves. On balance, the liabilities to the shareholder of the parent company increased by EUR 1,507 thousand.

(b) Business with sister companies:

Consulting services were procured from companies associated with the fund management company, Lindsay Goldberg & Bessemer, against payments in the amount of EUR 19,024 thousand. Payments of EUR 500 thousand are outstanding as of the year-end.

(c) Business with Management Board members

Business with members of the Management Board is restricted to their forenamed engagement as managing directors.

(45) Occurrences after the balance sheet date

In January 2006 Klöckner & Co GmbH sold its 10.02% holding in THYSSENKRUPP FERROGLOBUS Részvénytársaság, Budapest/Hungary. The carrying value of the investment was EUR 511 thousand.

In February 2006 Klöckner Distribution Industrielle S.A., Aubervilliers/France, acquired the Targe steel service center domiciled in La Grand Croix near Lyon.

Duisburg, April 24, 2006

Multi Metal Holding GmbH
The Management Board

Auditor's Report

We have audited the consolidated financial statements prepared by Multi Metal Holding GmbH, Duisburg, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from March 16 to December 31, 2005. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Cologne, 15 May 2006

KPMG Hartkopf + Rentrop Treuhand KG
Wirtschaftsprüfungsgesellschaft

Philippi
German Public Auditor

Michels-Scholz
German Public Auditor

Klöckner & Co AG
Am Silberpalais 1
D-47057 Duisburg

Phone +49(0)203 307-0

Fax +49(0)203 307-50 00

info@kloeckner.de

www.kloeckner.de

