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Press Releases

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DOUBLE-DIGIT IMPROVEMENT IN TURNOVER AND SALES VERSUS PREVIOUS YEAR. OPERATING INCOME (EBITDA) BEFORE RESTRUCTURING EXPENSES €50 MILLION IN THE SECOND QUARTER IN LINE WITH GUIDANCE. PROFITABILITY ACTION PLAN SUBSTANTIALLY EXPANDED.

- Turnover raised by 14.1% to 3.7 million tons and sales by 12.6% to some €3.9 billion due to acquisitions and strong growth in the USA
- EBITDA €98 million (€78 million including restructuring expenses), compared with €166 million in prior year
- Net income €-48 million (before restructuring expenses and impairments: €-5 million) , compared with €50 million in prior year
- Earnings per share €-0.48 as against €0.69 in prior year
- Profitability action plan pushed ahead and recently substantially expanded
- EBITDA guidance for Q3 €25 million to €35 million before restructuring expenses with a slight seasonal decrease in turnover

Figures relate to first six months relative to first six months of prior year

Duisburg, August 8, 2012 – Turnover and sales increased sharply in the first six months of 2012, primarily from the acquisition of Macsteel Service Centers USA and strong organic growth in the USA. At €98 million, operating income (EBITDA) before restructuring expenses, however, was down on the previous year, mainly on account of the weaker economic trend in Europe. In spite of the downbeat environment, EBITDA before restructuring expenses in the second quarter amounted to €50 million and was thus within the guided range. In light of the deteriorating economic conditions, above all in Europe, the forecast achievement of last years' EBITDA during the current fiscal year is rather unlikely.

Gisbert Rühl, Chairman of the Management Board of Klöckner & Co SE: "The situation in Europe is becoming increasingly tense and we remain skeptical about what lies ahead. We made arrangements for this situation early on and recently substantially expanded our restructuring measures. The US market, where we are ideally positioned thanks to the almost completed integration of Macsteel, is and remains the growth driver for Klöckner & Co."

Turnover and sales up, earnings significantly down on previous year Klöckner & Co increased turnover in the first six months of fiscal 2012 – primarily through acquisitions but also thanks to organic growth in the United States – by 14.1% to 3.7 million tons compared with the prior-year period (3.3 million tons).

In the Europe segment, turnover was 6.5% down on the previous year owing to the difficult economic environment as well as the discontinuation of business activities generating low profitability.

In contrast, turnover in the Americas segment was 67.8% up on the first half of 2011, particularly on account of acquisitions. Even after adjusting for the acquisitions made in fiscal 2011, turnover in the United States showed organic growth of 10.9% and thus rose notably against the market and the prior-year level. Adjusted Group turnover fell by 2.7% due to the weak development in Europe.

Group sales in the first half-year of 2012 amounted to some €3.9 billion, which represents a 12.6% increase as against the first six months of 2011 (excluding acquisitions: a decrease of 2.7%). Due to increased competition, it was not possible to match the prior-year period's gross profits, which were marked by high inventory gains. This led to a gross profit margin of 17.5%, which was significantly down on the previous year's 19.9%. As a result, EBITDA fell sharply from €166 million in the first half of 2011 to €98 million (-41.0%) before restructuring expenses. In the second quarter, EBITDA amounted to €50 million before restructuring expenses, which is 18.5% down on the previous year's €62 million.

Earnings were impacted during the past half-year by an impairment charge on goodwill arising from the Brazilian Frefer acquisition in the amount of €21 million, which meant that EBIT for the first six months of 2012 was €-5 million (HY1 2011: €122 million). Earnings before taxes (EBT) came in at €-47 million after €81 million for the corresponding period of the previous year. Overall, Klöckner & Co therefore posted a net loss of € 48 million (before restructuring expenses and impairments: €-5 million; HY1 2011: net income of €50 million). Basic earnings per share came to €-0.48, compared with €0.69 in the prior-year period.

Strong balance sheet and financing structure retained The change in the company's financial position particularly reflects the seasonal build-up of net working capital. Accordingly, total assets rose by 4.9% to €4,938 million. In addition to consolidation effects, higher turnover drove an increase in funds tied up in net working capital to €1,685 million as against €1,534 million at the end of the 2011 fiscal year.

The equity ratio stood at around 37% as of June 30, 2012 and was thus roughly on a par with the end of the 2011 fiscal year. Due to the higher volume of funds tied up in net working capital, net financial debt amounted to €582 million as against €471 million at the end of the last fiscal year. Net financial debt was kept low relative to equity, with gearing of 36%. Liquidity remained at a high level of €974 million, compared with €987 million as of December 31, 2011. Some of the substantial liquidity was used at the end of July to repay the €325 million convertible bond when it matured.

Action plan pushed ahead and substantially expanded Back in September 2011, Klöckner & Co responded to the recessionary trend in the European periphery with an action plan; in doing so, it assumed a 5% decline in European steel consumption. This scenario was considered to be too negative by many market participants at that time, but the scale of the current downswing is in fact even more pronounced.

In addition to reductions in administration costs and sales overheads and the discontinuation of insufficiently profitable business activities, the action plan also centered on deep cuts to the site network in Spain. The related restructuring expenses depressed second-quarter EBITDA by €17 million.

As economic conditions in Europe worsened, Klöckner & Co once again responded immediately, increasing the 700 jobs originally scheduled to be cut to 1,300, or 12% across the Group as a whole. By expanding the plan, Klöckner & Co is currently seeking to add around €90 million to EBITDA after €70 million on a comparable annualized basis. Implementation of the measures is progressing according to plan, although the full effect will not be seen until 2013. Of the 700 jobs originally affected in Europe and recently increased to 1,300, some 520 have been cut since the plan began. The increase in the headcount reduction relates entirely to the country organizations in Spain, France and Eastern Europe. The measures are scheduled to be largely implemented by the end of the year. Furthermore, initial steps were also completed to discontinue unprofitable locations and business activities. The subsidiary in Spain is particularly affected, as is the beams business with large customers in Germany and the Netherlands.

At the same time, the integration of Macsteel in the USA was all but completed. This will lead to considerable synergy and cross-selling effects, alongside the generally more upbeat growth forecasts in the United States.

Expansion into US automotive business initiated By building a steel service center at the ThyssenKrupp Steel USA site in Alabama/USA, Klöckner & Co has continued the strategy that the Company is pursuing with its acquisition of Macsteel to expand the service center business, thereby rounding out its product portfolio in the United States by adding automotive grades for premium manufacturers. The plant is expected to launch operations in the fall of 2013.

Outlook

As things stand at the moment, due to the adverse market environment and the usual seasonal slowdown in business activities during the summer, the company expects EBITDA before restructuring expenses of €25 million to €35 million in the third quarter of 2012. This development will be supported not only by a more favorable economic trend in the United States, but also by a stronger market position following the complete integration of Macsteel and the resulting economies of scope.

From today’s perspective, Klöckner & Co continues to expect a rise in turnover and sales in fiscal 2012 compared with the prior year. The increase is expected to be achieved, in spite of portfolio streamlining measures and the weak market development in Europe, by last year’s acquisitions and the organic growth in the United States. Due to the escalating economic situation in Europe overall and a possible slowdown in the US economy, achieving the operating income (EBITDA) of the previous year is rather unlikely from today’s perspective.

About Klöckner & Co Klöckner & Co is the largest producer-independent distributor of steel and metal products and one of the leading steel service center companies in the European and American markets combined. The core business of Klöckner & Co is the warehousing and distribution of steel and non-ferrous metals as well as the operation of steel service centers. Based on the Group's distribution and service network, more than 170,000 customers are supplied through around 290 locations in more than 20 countries. Currently Klöckner & Co employs around 11,200 employees. The Group had sales of around €7.1 billion in fiscal 2011.

The shares of Klöckner & Co SE are admitted to trading on the regulated market segment (Regulierter Markt) of the Frankfurt Stock Exchange (Frankfurter Wertpapierbörse) with further post-admission obligations (Prime Standard). Klöckner & Co shares are listed in the MDAX®-Index of Deutsche Börse.

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