

SUSTAINABILITY REPORTING

of Klöckner & Co SE

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Klöckner & Co SE sustainability reporting 2020

Klöckner & Co is one of the largest producer-independent distributors of steel and metal products worldwide. As we are not tied to any particular steel producer, customers benefit from our centrally coordinated procurement and wide range of national and international sourcing options from around 60 key suppliers across the globe. These include the world's largest steel producers and their distribution arms. Responsible conduct plays a central role in relation to our business model and our self-perception as a tradition-rich company. For us, responsibility means aligning our entire enterprise around good ethical behavior, social responsibility, environmental compatibility as well as commercial success. This ethos is enshrined in our Group-wide Klöckner & Co Principles, which ensure that we share a common understanding and provide specific guidance for our conduct on a day-to-day basis. Sustainability is an issue of special importance at every link in the steel value chain. Although the steel industry's large environmental impact has already shrunk considerably in recent years, production in particular is still associated with high levels of resource use. However, we as a distributor and important link in the value chain also see it as our duty to continuously improve processes in order to minimize the adverse effects of our business activities. This was among the reasons we committed to the UN Global Compact "Business Ambition for 1.5°C," where we are in the target-development phase. The participants in this initiative measure their greenhouse gas emissions and plan reduction targets that are in line with limiting the rise in global temperatures to 1.5°C by 2050.

Our approximately 7,300 employees apply their skills and enthusiasm every day to meeting our customers' needs and wishes. We provide customers with an optimized, end-to-end solution from procurement through logistics to prefabrication, including individual delivery and 24-hour service – processes we are increasingly migrating to digitalization. For example, we use a variety of digital tools and portals to enable us to provide our customers and business partners with a broader spectrum of steel and metal products as well as services. Through our distribution and logistics network comprising around 140 sites in 13 countries, both in Europe and in the USA, we serve more than 100,000 customers. Concentrated mainly in the construction as well as the machinery and mechanical engineering industries, our customer base consists primarily of small to medium-sized steel and metal consumers (for more in-depth information about Klöckner & Co's business model, see page 33 of the management report).

Group non-financial report in accordance with Section 315b of the German Commercial Code

The following sustainability reporting for 2020 includes the Group non-financial report of Klöckner & Co SE in accordance with Section 315b of the German Commercial Code (HGB). In the Group non-financial report, we present the non-financial issues of major relevance to our business activities together with the impact of those activities on aspects comprising environmental matters, employee matters, respect for human rights as well as anti-corruption and bribery. This includes the chapters of the Employees, Responsible Conduct and Environment action areas. In addition, we provide transparent reporting in the following on our broader engagement with regard to sustainability. This includes the chapters relating to the Digitalization and Customers action areas.

The reporting period for the Group non-financial report is fiscal year 2020. Unless otherwise specified, the information covers all fully consolidated companies of the Klöckner & Co SE Group. Following re-evaluation, we decided against using a framework in the preparation of the Group non-financial report, as we do not require a framework to present the relevant information in a structured and stringent manner. In addition, such frameworks build upon different definitions of materiality and result in a choice of topics that is not appropriate for our representation of non-financial aspects. However, verification of the use of a framework is regularly carried out.

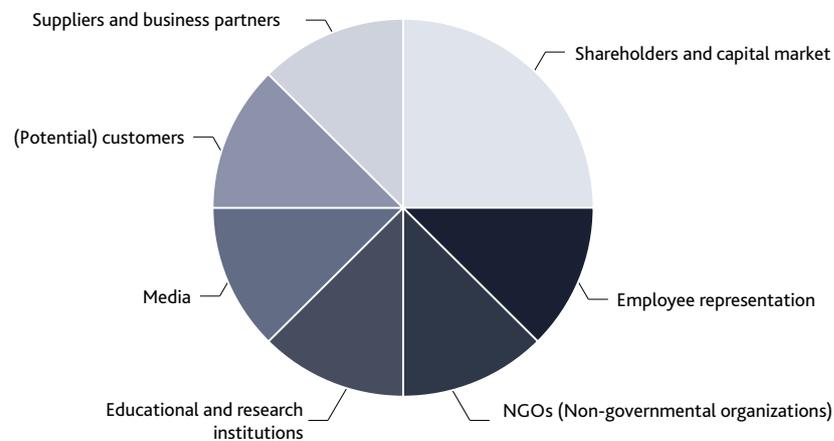
PricewaterhouseCoopers GmbH was engaged to provide a limited assurance review of the information items in the German PDF version of the sustainability report, which contains the Group non-financial report, for the period January 1, 2020 to December 31, 2020.

Materiality analysis



The topics to be included in the Group non-financial report are specified and formulated within the context of our sustainability management. Our definition of sustainability comprises all the areas that contribute to securing the long-term success – i.e. the future viability – of Klöckner & Co. We review the reporting topics on an ongoing basis in order to ensure that we are advancing the key issues that are material to a sustainable, forward-looking strategy in a dynamic market environment. In 2020, we again conducted an extensive materiality analysis based on the results of the 2017 materiality analysis. We approached the material topics using 14 process steps that were individually tailored to Klöckner & Co. First, we reviewed the topics from the previous materiality processes in terms of their currentness. Additionally, we examined which further industry-specific topics should be included. We identified 26 topics that are significant for our corporate responsibility management and reporting, and weighted them according to their relevance. The prioritization of the issues reflects their importance in terms of business relevance (net assets, financial position and results of operations, innovation and reputation) as well as the impacts of our business activities and the upstream supply chain on the environment and on society. The Sustainability Committee then discussed, validated and approved the findings.

Potential material sustainability topics were identified in an internal working group comprising selected executives and functional managers. They categorized as material those topics that meet the bar for double materiality. This refers to company activities and business topics that have a decisive negative or positive impact on sustainability aspects outside the organization (inside-out perspective) as well as external sustainability aspects that have a significant impact on internal company activities (outside-in perspective). We have also integrated the perspectives of various stakeholders as a criterion of materiality. The findings were again reviewed and reevaluated in dialog with external stakeholders (the capital market, customers, suppliers, employee representatives, NGOs, the media as well as education and research bodies).



External stakeholder survey (70% response rate)

In order to conduct the most accurate analysis possible, we added qualitative statements to each of the quantitative assessments of potential material topics. This means that topics may also be considered material if they have a significant impact on decisions the stakeholders may make or on their relationship to the Company. The aggregate results were coordinated with the CEO to ensure comprehensive and integrated reporting for the Group. The topics deemed material are the focus areas of this report. The relevance of the Group-specific topics of digital transformation and customer satisfaction, which go beyond the minimum requirements of the German Commercial Code (HGB), became clear in the stakeholder perspectives examined individually as well as in the assessment summarized subsequently.

Furthermore, we identify additional topics as material that are of special significance to Klöckner & Co. This includes social commitment, which the stakeholders did not consider material yet must be considered from the Group perspective. It also covers social matters, an obligatory aspect in the HGB.

Action areas and reporting topics

					
ACTION AREAS	EMPLOYEES	RESPONSIBLE CONDUCT	ENVIRONMENT	DIGITALIZATION	CUSTOMERS
	Occupational safety	Corporate Governance ¹⁾	Environmental impact of logistics	Digital Transformation	Customer satisfaction
TOPICS	Employee development	Human rights in the supply chain ²⁾			
	Fair working conditions	Corporate citizenship ³⁾			
	Demographic change	Antitrust risks ¹⁾			
MAPPING GERMAN COMMERCIAL CODE (HGB)	Employee matters	¹⁾ Anti-corruption and bribery matters ²⁾ Respect for human rights ³⁾ Social matters	Environmental matters	Group specific matters	Group specific matters

The materiality analysis carried out according to the CSR Directive Implementation Act yielded the following six material topics for reporting at Klöckner & Co: employee development, occupational health and safety, anti-trust risks, the environmental impact of logistics, customer satisfaction and digital transformation. These topics represent the three obligatory matters of employee matters (employee development; occupational health and safety), anti-corruption and bribery (antitrust risks) and environment (environmental impact of logistics) according to the HGB. Respect for human rights and social matters, both obligatory matters, are not included in the six material topics derived from the materiality analysis. Two material topics – customer satisfaction and digital transformation – go beyond the obligatory matters and are specific to the Group. Aspects that go beyond the obligatory matters but are derived from the materiality analysis are material according to HGB criteria and are components of obligatory non-financial reporting.

Apart from the topics identified in the materiality analysis, we also report on topics that are significant to Klöckner & Co in connection with sustainability: human rights in the supply chain, corporate governance, fair working conditions, demographic change and social commitment. This way, our reporting covers the two obligatory matters of respect for human rights (human rights in the supply chain) and social matters (social commitment), which the HGB requires. Our sustainability strategy and our sustainability management are aligned with the five action areas of Employees, Responsible Conduct, Environment, Digitalization and Customers. They also form the chapters of this report.

No reportable risks

Risk assessment

A risk assessment has been conducted for all material issues under the CSR Directive Implementation Act. This investigated whether our business activities or our supply chain give rise to material risks for reportable matters under Section 315c read in conjunction with Section 289c (3) of the HGB. The investigation took into account the probability of occurrence and the scale of negative impacts for each matters. No reportable risks were identified.

Sustainability Committee determines main pillars of sustainability strategy

Sustainability management

As a tradition-rich company, Klöckner & Co considers it its duty to ensure its own future viability by means of long-term, strategic goals. In this process, responsibility for the bulk of internal and external stakeholders plays an important role that follows from the size and international presence of our business activities. To shape these relationships in the long term and in a responsible manner for the benefit of all, we bundle all relevant activities in a Group-wide sustainability management system that covers the three dimensions of sustainability – economic, environmental and social. The CEO is functionally responsible for the area of sustainability. Responsibility for sustainability management, coordinating all sustainability activities and compiling the Group non-financial report lies with the Investor Relations, Internal Communications & Sustainability department. In addition, a Sustainability Committee was set up at the end of 2016, composed of managers from Investor Relations, Internal Communications & Sustainability, Legal & Compliance/Personnel & Insurance, Group HR and Digital Transformation. Logistics & Operations assumes responsibility for sub-sections of the former Safety, Health, Environment and Quality (SHEQ) Management in the Digital Transformation unit. In 2020, Risk Management was integrated into the Committee. The Sustainability Committee determines the main pillars of the sustainability strategy and, regarding its implementation, coordinates its activities closely with the respective departments across the Klöckner & Co SE Group.

Alongside the expertise bundled in our Sustainability Committee, we purposefully harness our employees' innovative drive. Our employees can use the Company-wide social network Yammer to submit ideas and suggestions, the feasibility of which is subsequently evaluated by Investor Relations, Internal Communications & Sustainability as well as by relevant experts.



EMPLOYEES

*In the **Employees action area**, we cover our employees' productive skills, knowledge and behaviors. These also include the following topics that are material to non-financial reporting: occupational health and safety, employee development, fair working conditions and demographic change. This action area refers to the aspect of employee matters, which is required in the HGB.*

A qualified, motivated and healthy workforce paves the way for Klöckner & Co to generate added value – for employees, for the Company and ultimately also for our customers. If we are to keep the entire workforce motivated, nurture talent from within our own ranks, recruit new talent and secure employee loyalty, we need a working environment characterized by long-term security, supportiveness, professionalism and mutual respect. Such a working environment is vital to Klöckner & Co's success – and for every single employee to be able to develop and realize their full potential.

This is also reflected in our Klöckner & Co Principles for all employees, which guide our day-to-day conduct and which clearly delineate responsibilities. They are: We take responsibility. We create added value. We are team players. We develop. We discover new things. We make things possible. Our executives aim to develop their teams and empower them to take decisions independently. Our employees take personal responsibility and actively put forward their own proposals. Regular dialog and feedback – including across hierarchical levels – thus generate added value for the Company and development opportunities for each individual.

Principles valid Group-wide

The Surtsey project – accelerating the digital transformation

In the reporting period, we launched the Surtsey project, with which we are now significantly stepping up the pace of Klöckner & Co's digital transformation into a platform company, and thus laying the foundations for a return to sustainable growth in the future. The workforce will be reduced by a total of more than 1,200 employees as part of Surtsey. As of January 2021, the workforce was reduced by about 1,000 (figures related to the provisions recognized are available in the Digitalization section and in the consolidated financial statements). In addition, branches were closed which are no longer needed due to the site optimization as part of the push for efficiency gains in logistics.

Employee development

Continuing education is more vital than ever, and it is a key component of our Klöckner & Co Principles and corporate culture. That is why we offer employees a wide variety of further training and personal development opportunities. Another focus is on nurturing new talent. Particularly with a view to demographic change, recruiting and securing talent for the long term is central to our corporate success.

Our activities are directed at continually refining and enhancing workforce qualifications and skills – notably with regard to digitalization – and promoting talent from within our own ranks. The vast majority of country organizations perform these activities locally and have their own HR developers. Our Group-wide HR strategy, known as the Klöckner & Co People Strategy, serves as a guiding framework for forward-looking employee management throughout the Group.

The CEO is updated via ongoing exchange about developments in and outcomes of such activities, and ensures that the thematic areas covered by the Group-wide HR strategy are driven forward. Our HR strategy is based on the pillars of leadership and corporate culture, systematic performance, talent and succession management as well as improvements to make us an even more attractive employer. Leadership and corporate culture as well as employer attractiveness are topics of special focus in the employee survey, and received largely positive ratings from the staff. At the start of the year, we once again conducted a Group-wide employee survey following the one in 2019. Almost all of the organizations participated. The results provide the springboard for initiating new HR management measures and developing our culture. All the areas included in the survey showed improvements compared with the 2019 survey. The response rate rose from around 60% to around 70% in the reporting year. The questions that received the most positive responses were whether employees feel they are treated with respect by their immediate supervisor (85%) and whether everyone knows how they can contribute to the Company's goals (85%). It was also particularly gratifying to see that eight out of ten employees say they are happy to be working for Klöckner & Co (80%) and are familiar with our current strategy (79%). Of the entire workforce, 16% were dissatisfied with their workspace for reasons such as the lighting and noise levels. As we are able to break the survey down to the individual site level, we can implement targeted measures, such as those that focus on individual rooms and areas. Systematic change management will help us to use the findings to our advantage. A Group-wide employee survey is also planned for 2021.

Some 46,000 in-house training courses completed

Continuing education is a high priority at Klöckner & Co. Group-wide, some 46,000 in-house courses were completed in a broad spectrum of areas in the reporting year. The majority of them were in security, compliance and digital skills development as part of the Digital Academy. External, individual continuing-education measures are not included in this figure.

The Digital Academy is a special in-house offering designed to promote the personal development of employees throughout the Group and prepare them for the digital future. Klöckner & Co offers an extensive range of online training courses that staff at every site can take during working hours. In 2020, the Digital Academy focused on such topics as digitalization basics, coding, online marketing and digital business models. The rise in the total number of course registrations – from 3,600 in 2019 to over 9,000 in 2020 – is especially noteworthy. For us, this is a clear indicator that these continuing-education options are very popular among the workforce, who are making increasing use of them to build the digital skills that will be increasingly relevant in the future. More information about continuing education and digital-skills measures can also be found in the Digitalization section.

Klöckner & Co additionally provides support for training taken on employees' own initiative. Employees receive feedback on their behavior and performance up to four times a year during reviews, and individual wishes and training courses are incorporated as part of target agreements.

Launched in 2018, the “CLEAR Sales – selling through the eyes of your customer” training course available throughout Europe remains part of our training portfolio. With its focus on communications as well as building and strengthening customer relationships, this sales training teaches participants how to better identify our customers' needs and offer them tailored solutions. Online videos are also now available in our Digital Academy ready to be used Group-wide at any time.

In addition, there are internal measures to foster young talent. In 2020, all European country organizations saw the continuation of the Country Talent Pool Program, in which young talent is selected and provided with targeted support and training over a period of twelve months.

Emerging Leaders is a global development program for tomorrow's aspiring executives. The program both teaches and acts as a refresher for expertise essential to the digital era, the associated radical change process and the future of the Group. Topics range from contemporary business administration knowledge, leadership and change management skills to agile working methods, and serve as an effective toolkit for innovative and customer-centric business practices tailored to our digital transformation. The promotion rate for the first Emerging Leaders from 2015/2016 has now reached 77%. The second cohort completed the program at the end of 2017 and already successfully hold branch manager or operating leadership positions. To date, 92% of this cohort have climbed a step up the career ladder. The third cohort participated in the program during the reporting year – in virtual form starting with the second module, due to the COVID-19 pandemic. Selection of the fourth cohort is slated for 2021.

Training courses in leadership empowerment, change management and digital transformation

Management tasks have changed substantially due to ever flatter hierarchies, virtual teams and rapidly evolving demands. Executives not only need to keep pace themselves, but also stay motivated in their efforts to support constructive collaboration among their team members. In order to ensure that happens at Klöckner & Co, managers at management level 3 can now take part in the Leadership Empowerment Program (LEMP). This program was launched to give even more Klöckner & Co employees digital training opportunities that will keep their skillsets aligned with the future of the Group. In the reporting year, 22 employees at sites around the world took part in the first of two modules, learning about mindset, communication, management skills, ethics and compliance, as well as the platform business and the digital transformation.

Moreover, during a two-day Group Management Meeting (GMM), Klöckner & Co's top management level met with international experts who contributed scientific and practical expertise and discussed employee management during a radical transformation. Several virtual GMM learning modules will be offered to this target group in 2021 in order to intensify the focus on continuing education at the top level as well. All the offerings will be conducted in cooperation with the European School of Management and Technology in Berlin, which the Financial Times has rated Germany's top business school.

For career starters and students, Klöckner & Co offers Group-wide internships and working student positions, where they can apply and consolidate content from their studies in real-life business situations. Our German activities in this connection follow the quality standards of the Fair Company initiative, for which Klöckner & Co reaffirms its commitment each year. We also offer a large number of apprenticeships and equivalent programs to provide young people with a career entry point while ensuring that Klöckner & Co is able to secure well-qualified young talent. In Germany, apprentices accounted for 5.8% of our entire workforce in the reporting year.

The fact that our further training activities are well received is demonstrated, for instance, by the results of our employee survey and the consistently positive feedback regarding our Emerging Leaders Program as well as our kununu rankings, where we are regularly rated a top employer.

Occupational health and safety

Occupational health and safety is a key issue for us as a steel distributor with a high percentage of wage earners employed at our branches. A healthy and safe working environment both protects our employees and ensures smooth process workflows.

Over and above the legal requirements, the topic of occupational safety is addressed at various levels of Klöckner & Co. At a corporate strategic level, all our occupational safety activities have been brought together under the Safety 1st initiative in Europe and comparable initiatives at our American country organizations since 2013. With guidance from a worldwide survey entitled Safety Perception conducted in 2018, recommendations were made that serve as the basis for continuous improvements.

LTIF value reduced to 9.7 in 2020

The Group-wide goal of our occupational safety initiatives and activities is a consistent reduction in occupational accidents as measured by the Lost Time Injury Frequency (LTIF). This is defined as the number of accidents/number of hours worked x 1,000,000. We take accidents into account from the first working day lost. Changes in the LTIF are a firm feature of regular Management and Supervisory Board meetings and are captured in monthly reports. In the 2020 reporting year, the LTIF was reduced to 9.7, as compared with a value of 10.3 in the previous year – again coming in under the annual Group-wide LTIF Klöckner & Co had set itself. Our target for 2021 is to permanently reduce the average Group-wide accident frequency to an LTIF value of less than or equal to 9.0¹.

To ensure regular exchanges on the topic of occupational safety in Europe **within the Group**, we have established a committee comprising experts from the European country organizations. It generally meets twice a year and is responsible for monitoring the overall activities and coordinating our occupational safety strategy. The committee liaises closely with the US country organizations and reports directly to the managers responsible for operations. Due to the COVID-19 pandemic, the committee met only once in the reporting year. Resources were fully occupied with the expansion of the safety and hygiene measures.

All European country organizations with the exception of Belgium (planned for Q1 2021) have already implemented occupational health and safety certification, usually under the international standard OHSAS 18001/ISO 45001. Apart from that, a Group-wide minimum standard always applies to safety requirements, independent of whether a country organization is pursuing certification.

At country and branch level, SHEQ teams at each of our country organizations work continuously to systematically reduce the risk of accidents and to raise occupational safety awareness among the workforce. Officers at each country organization are responsible for the regional rollout of adopted measures, subject accident causes to plausibility checking, perform risk analysis and coordinate cross-site training.

Local occupational health and safety officers are present at branch level to raise awareness of employees. This is done by such means as training courses and training videos as well as by visual means including posters, accident reports and a safety card that memorably presents key rules of conduct in credit card format. In addition, all visitors are required to wear helmets, safety shoes and high-visibility vests. Our operational processes are also optimized on an ongoing basis with individual improvements according to context.

¹The LTIF applies solely to Klöckner & Co employees. Commuting accidents are not included.

This includes, for example, a series of training videos and a Safety 1st e-learning course that has been a firm feature of the onboarding process for every employee since 2019. The central importance of this topic is also informally addressed on Yammer, our internal social network. Pertinent information is regularly shared within the Group, which in turn helps to increase awareness. At the same time, employees regularly remind each other to always observe safety rules and motivate one another to continue to perform well.

Accidents are always avoidable and preventive action enables us to avert loss or harm to employees or our business in advance. In the event that an accident does happen, the occupational health and safety officer analyzes it together with those concerned in local teams in order to identify measures for improvement and systematically avoid a repeat occurrence. The country organization officer files a detailed accident report to the holding company's occupational health and safety officer via our reporting system. Additional specific action is taken in the event of any unusual occurrences such as a spate of similar accidents at one country organization or site.

Safety measures during the COVID-19 pandemic

Klößner & Co's most valuable asset is the health and safety of our employees. When the effects of the global COVID-19 pandemic became clear in early 2020, the Group took immediate action. A COVID-19 crisis team formed in the holding company and discussed the developments each week. The crisis team kept the employees informed in a transparent manner via the Yammer network. The country organizations developed hygiene concepts and safety measures in a decentralized fashion, depending on their needs and requirements. Over the course of the year, the hygiene concepts and measures were repeatedly tightened or relaxed in line with the severity of the pandemic. At the onset of the pandemic, the advanced degree of digitalization at Klößner & Co meant that employees could perform most of their work at home and continue doing business.

Comprehensive safety and hygiene concepts during the pandemic

Fair working conditions

"Neutrality and openness with regard to gender, origin, age and appearance are our overriding principles in mutual dealings. We are pleased to say that most colleagues abide by this. Discriminatory behavior is completely unacceptable to us both from a human and from a business perspective and is in no way tolerated." Thanks to the emphasis that CEO Gisbert Rühl placed on this pledge early on, this topic has long been a focus at Klößner & Co. For Klößner & Co, fair working conditions are the basis for the motivation, and hence productivity, of our employees. A working environment characterized by mutual respect and free from discrimination of any kind is a necessary precondition for motivation and creativity. For management, this means resolving critical situations, supporting affected employees and thus ensuring a constructive and respectful working environment. To do justice to its importance, the topic of respectful interaction is a component of the Group-wide compliance training for all employees.

The CEO is functionally responsible for Group HR, which includes the definition of and adherence to fair working conditions. In accordance with our Code of Conduct, we have undertaken to ensure, among other things, that our colleagues, applicants and business partners are met with respect and judged according to their qualifications, skills and performance. We respect diversity of cultural, ethnic and religious backgrounds and are committed to the principle of equality. Detailed rules of conduct for our employees are set out in our Code of Conduct on our website.

In general, we strive to increase diversity in our workforce as well as to foster creativity and an innovative spirit in the Company with employees of differing cultural backgrounds, lifestyles and values. For us as an international Group, serving our customers day in, day out in numerous countries around the world calls for a strong global team with a high level of diversity. In total, we employ people from more than 60 different nationalities in our Group. Hiring and remuneration criteria are gender-neutral and are determined exclusively according to professional suitability and qualifications.

However, diversity of nationality is not the only important consideration for Klöckner & Co. We also aim to appoint women to specialist and management positions. We have not only set our sights on increasing the number of women in management roles throughout the Group but have already incorporated and begun implementing it in our strategy. The aim is to have 22% of management positions held by women by the year 2022. The percentage of women employed at management levels one to three below board level had been raised from 8% in 2011 to 17% Group-wide in 2019. In 2020, this figure went down slightly to 16%. In response, the Management Board took immediate measures and in Q1 2021 agreed for the first time on targets also at the level of the country organizations in order to continue to increase the percentage of female executives in the Group long-term.

The success of our approach to promoting women in managerial positions is demonstrated by the findings of the 2015 to 2019 iterations of "Frauen-Karriere-Index" (Women Career Index), a regular survey conducted by Barbara Lutz Index Management GmbH. In the first quarter of 2020, Klöckner & Co was singled out for the fifth year in a row as one of the top ten companies out of over 160 participants in this annual external survey on the promotion of women in management positions based on objective corporate data.

In addition, the joint 2020 study by the women's magazine Brigitte and Territory Embrace also confirms that promoting women is important to Klöckner. Thanks to our good performance in the following areas, Klöckner & Co was honored as one of the best employers for women: compatibility of professional and family life, workplace flexibility, career-advancement measures, and value placed on transparency and equality.

*Flexible and mobile work
at home*

For Klöckner & Co, consideration of our employees' differing backgrounds and wishes represents a further element of respect. This is notably reflected in a supportive, flexible and mobile approach to work. At the holding company of Klöckner & Co SE, provision has been made since 2017 for employees to work from a home office in order to organize their roles more flexibly both in terms of working hours and the space used. Similar programs are also recommended for our country organizations. In this way, we aim to make it possible for our employees to better harmonize their personal and professional lives as well as to improve the quality and productivity of their work. By giving employees greater autonomy with regard to how they arrange and carry out their work, we also intend to generate a higher level of satisfaction with the work itself and the results achieved.

The COVID-19 pandemic lent this trend further momentum, as the outbreak prompted the majority of our employees to switch to remote work. Even during the most intense phase of the pandemic, we had no difficulty keeping our business up and running. In order to facilitate the transition to working from home, we introduced Group-wide communication measures such as a special area on the intranet with tips for collegial, effective and healthy ways to work from home.



RESPONSIBLE CONDUCT

*The **Responsible Conduct action area** encompasses topics material to the Group non-financial report, namely corporate governance, human rights in the supply chain, as well as antitrust risks and Klöckner & Co's social commitment, which is also reported on within this section. This action area refers to the matters of anti-corruption and bribery, respect for human rights as well as social matters, which are required by the HGB.*

Klöckner & Co takes a holistic approach to responsible conduct. Consequently, although it is defined here as a single action area, it may also be regarded as an overarching concept that encompasses all other action areas. This is because, for Klöckner & Co, responsible conduct based on ethical convictions paves the way for long-term business success and hence also for sustainability.

Underscoring this aspiration, we have also publicly committed to a responsible leadership culture. Accordingly, in January 2017, CEO Gisbert Rühl co-signed the Compact for Responsive and Responsible Leadership sponsored by the International Business Council of the World Economic Forum. Klöckner & Co is also among the signatories of the German Industry's Code of Responsible Conduct for Business, and thus gave its commitment as long ago as May 2011 to both success-oriented and value-oriented leadership in the spirit of the social market economy.

An integral part of our corporate culture is compliance on the part of our employees and business partners, constituting the basis of corporate responsibility. Alongside consistent respect for human rights, adherence to our fundamental corporate values and principles is of central importance to us. We have formulated those values and principles in our Code of Conduct. Compliance with this is the direct responsibility of each individual and cannot be delegated.

As a tradition-rich company, Klöckner & Co also regards it as its duty to contribute to the wellbeing of society. Active involvement in the immediate vicinity of our headquarters and branches is a key aspect and an identity-building factor for our Group.

In the reporting year, we committed to the principles of the Davos Manifesto and consider it a guideline for our corporate actions. According to the Davos Manifesto, the universal purpose of a company in the age of the fourth industrial revolution consists of three principles: The purpose of a company is to engage all its stakeholders in shared and sustained value creation. A company is more than an economic unit generating wealth. A company that has a multinational scope of activities also itself acts as a stakeholder – together with governments and civil society – of our global future.

*Davos Manifesto: Sustained value
creation*

Compliance

As an international group with numerous supplier and customer relationships worldwide, Klöckner & Co aims to ensure integrity and responsibility both within the Company and in interactions with business partners, as well as to establish responsible relationships.

We aim to avoid potentially corrupt and antitrust situations as a fundamental rule and to counteract potential violations at an early stage. Every employee is called upon to actively help implement the Klöckner & Co compliance program within their sphere of responsibility.

One of Klöckner & Co's fundamental principles is that our employees act in accordance with prevailing competition law. We are committed to free competition and the recommendations of the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions of December 17, 1997. Klöckner & Co also endeavors to comply with all anti-corruption laws of the countries in which we do business, including the UK Bribery Act and the US Foreign Corrupt Practices Act.

All Board members, managerial staff and employees must be aware of the extraordinary risks that can be involved in any antitrust or corruption case, both for Klöckner & Co and for the individual. Klöckner & Co expects employees at all levels of the Company, regardless of their hierarchical position, to comply with prevailing competition rules and antitrust laws. The Management Board has unequivocally expressed in its "Tone at the Top" that antitrust violations and corruption are not tolerated at Klöckner & Co and any infringements are systematically pursued. Our employees are provided with a frame of reference and guidance in the form of our Group-wide Code of Conduct together with internal Group guidelines and procedural instructions on topics such as adherence to antitrust rules, the engagement of intermediaries, anti-money laundering, export controls and anti-corruption in business dealings. We expect external business partners to comply with the ethical values and principles enshrined in our Code of Conduct, Supplier Code of Conduct or a comparable code of their own and to implement them effectively in their organization.

*Compliance management system
based on OECD principles*

To support compliance with these stipulations, we use a compliance management system based on the OECD Principles of Corporate Governance. Focal areas of this system include competition law, anti-corruption and the prevention of money laundering. Responsibility for the onward development, control and implementation of the compliance management system lies with our compliance organization, which provides employees with regular information and training on relevant statutory provisions as well as internal guidelines and procedural instructions.

The Company's corporate compliance organization consists of the Chief Compliance Officer (who is also the Chief Governance Officer), the Corporate Compliance Office (CCO), the Compliance Committee and the National Compliance Offices (NCOs). The CCO is part of the Company's GRC organization, which was established during the reporting year. The GRC organization consists of the Compliance, Data Protection, Information Security, Risk Management and Internal Control System departments. The Chief Governance Officer reports to the entire Management Board and the Supervisory Board on current developments and immediately escalates ad hoc reports to the CEO. Furthermore, the CEO, who is responsible for Compliance, is regularly informed of compliance-related matters through Compliance Risk Assessment reporting and the Compliance Audits as well as during regular compliance meetings and in the annual compliance report.

**Responsible conduct action
area**

The compliance organization conducts regular compliance risk assessments with the country organizations. As part of risk analysis, the compliance organization evaluates individual compliance risks together with the managing directors of the various country organizations and takes precautionary action. During the reporting year, no need for action was identified in the risk areas of antitrust law and corruption beyond the measures already taken.

In cooperation with the Corporate Internal Audit Department, compliance audits are also carried out in our country organizations as part of the scheduled ICS audits to verify adherence to the compliance tools and rules implemented.

To prevent corruption, we established strict criteria for the engagement of intermediaries as long ago as 2010 and subject intermediaries to compliance screening before entering into a contract with them. Klöckner & Co makes use of an external service provider for this purpose. The screening is repeated at set intervals and according to the assigned risk rating. All level one to level three managerial employees, and all board members regardless of level, are additionally subjected to independent integrity screening supplemented with regular self-disclosure questionnaires.

In the interest of all employees and to avert damage to the Company, procedural instructions are provided that detail permissible conduct. The country organizations publish the Group guidelines and procedural instructions in their area of responsibility and adopt the measures needed to implement the respective requirements. For this purpose, use is made among other things of the Corporate Compliance Office's Compliance SharePoint, where all relevant compliance documents are provided online as a "Single Point of Truth" for all Group employees. Additionally, we use an e-learning course on the regular submission of the compliance declaration, together with awareness training on various forms of CEO fraud.

Classroom training and e-learning programs familiarize new employees with the content of the Code of Conduct and raise awareness of, for instance, compliance-related issues such as antitrust law, corruption risks, money laundering risks and fraud. We first separate employees into different target groups which then receive training tailored to their specific areas of work. New hires must complete Code of Conduct training when they join. In the reporting period, some 1,164² employees underwent training.

Upon starting work for the Group, employees in certain target groups, especially those who come into contact with officials, customers, suppliers and service providers, must complete basic compliance training in addition to Code of Conduct training. In the reporting period, we also expanded the number of employees registered for basic compliance training to 947².

Additionally, we conduct refresher e-learning sessions throughout the Group to keep our employees up to date and address specific compliance-related issues with examples from their day-to-day work. All previously mentioned mandatory and other training options were again offered and held in the reporting year.

² Data for the period October 1, 2019 to September 30, 2020.

June 1, 2020 marked the launch of the new compliance platform GAN Connect, which covers all matters surrounding compliance. Implemented as part of our digitalization strategy, the tool serves to further optimize and streamline processes. The modules currently in use on the platform are about requests and approvals ("Ask Compliance"), vetting business partners ("Due Diligence"), a whistleblower system ("Let Us Know") and the integrated Case Management Tool.

As in the past, the option of submitting anonymous reports of potential compliance violations to the Corporate Compliance Office is still available. Employees and third parties alike can report potential violations of our Code of Conduct via the platform's landing page or the Klöckner & Co SE website. A 24/7 hotline is also available for this purpose. The toll-free telephone numbers in each country are provided on the Klöckner & Co SE website.

The effectiveness of our compliance management system is reflected in the figures: We had no serious breach of our guidelines to report this year, and none of our 11² reviews of individual business sites by Internal Audit identified any antitrust risks or corruption or bribery infringements.

Human rights in the supply chain

Klöckner & Co SE and the country organizations pay attention to ethically correct and compliant behavior in business dealings. This concerns both our own Company and all upstream parts of our value chain. We expect everyone in our supply chain to follow the same principles. The Chief Governance Officer (CGO) reports regularly to the Company's entire Management Board and the Supervisory Board on the latest compliance-related developments in the Group as well as on an ad hoc basis in urgent cases.

As stated in our Code of Conduct and moreover in our Group human rights policy, Klöckner & Co does not tolerate any violation of the principles set out in them. Alongside observance of laws and human rights, these principles include the prohibition of child labor and ensuring workforce health and safety as well as compliance with the statutory minimum wage and working hours.

Supplier Code of Conduct for all core suppliers

In order to clearly convey this expectation to our suppliers, we introduced a Supplier Code of Conduct in fiscal year 2018, which is available on our website and was also sent out to all key suppliers. By signing this document, suppliers commit to observing the applicable laws, sustainability and the ethical values of Klöckner & Co. If a supplier has its own equivalent company code of conduct, the Corporate Compliance Office verifies the equivalence of the requirements. If this verification uncovers major discrepancies in the areas mentioned and the supplier declines to acknowledge our Supplier Code of Conduct, further purchases from that supplier are blocked. The verification process did not determine any discrepancies in the reporting year.

We generally seek long-term relationships with suppliers and work together with them wherever possible to deliver improvements and sustainable solutions. Two-thirds of our key suppliers have been supplying Klöckner & Co for more than five years and have shown themselves to be reliable business partners.

² Data for the period October 1, 2019 to September 30, 2020.

Prudent and responsible product procurement is of special importance to Klöckner & Co. For example, a key goal in the procurement process is to ensure that minerals contained in our products are not from conflict particularly important concern for us as a distributor is the origin of the minerals incorporated in the products we sell.

The importance of this topic is also reflected in requirements laid down by our international customers, who expect us to provide clear proof of origin. Of particular interest in this regard are conflict minerals such as columbite tantalite (coltan), cassiterite, gold, wolframite and derivatives, which include tantalum, tin and tungsten. The annual review of our product portfolio in fiscal year 2020 showed that less than 1% of our products possibly contain tantalum, tin or tungsten.

Since the entry into force of the Dodd-Frank Wall Street Reform and Consumer Protection Act as well as notably the Conflict Minerals Rule, Klöckner & Co analyzes every year whether conflict minerals are used in the manufacture of the products concerned and, if so, whether they originate from the Democratic Republic of the Congo or neighboring states.

If suppliers manufacture components, parts or products using the minerals in question, we require that those materials are not sourced from the aforementioned states. We use the Responsible Reporting Initiative's "Conflict Minerals Reporting Template" to systematically track the provenance of conflict minerals for all relevant suppliers if our customers request corresponding proof. We expect our suppliers, together with their subcontractors, to trace conflict minerals at least to where they were smelted and to commit to standard reporting processes. Klöckner & Co reserves the right to demand additional supply chain verification from its suppliers and, where appropriate, to trace conflict minerals back to the mine of origin. For their part, suppliers should also formulate and implement conflict minerals policies and principles. If possible, they should require their upstream suppliers to adopt and follow corresponding policies and principles.

We expect our suppliers to retain the relevant documentary proof for five years and to submit it to Klöckner & Co on request. Should a supplier fail to provide proof of origin for conflict minerals, further purchases from that supplier are systematically blocked. The same applies if the supplier does not acknowledge the above principles regarding the source of conflict minerals. In the 2020 reporting year, no suppliers needed to be blocked for failure to provide proof.

Social commitment

Klöckner & Co operates in 13 countries worldwide, maintains some 140 sites and employs around 7,300 people. This gives rise to responsibility not only for our employees, but also toward the regions in which our headquarters and branches are located. We consequently give our commitment to the immediate surroundings of our sites and, in this way, play our part in meeting social challenges.

Our goal is for the financial support we provide to benefit those who really need it. Donation and sponsoring activities are conducted autonomously by our country organizations as they are best placed to judge individual needs in their region. They are provided with a framework in the form of Group-wide procedural instructions through which we ensure that our activities have a common thrust while being tailored to individual market conditions. The focus of our activities is on supporting selected scientific, sports, art and cultural projects along with ongoing promotion of education initiatives and the integration of refugees into our society.

*Taking responsibility for
immediate surroundings*

In order to avoid conflicts of interest, we do not as a matter of principle donate to political parties, individuals, for-profit organizations or organizations whose goals conflict with our corporate governance principles or could harm our reputation.

Social commitment enjoys a high priority at Klöckner & Co, which is why it is managed in the CEO's immediate orbit via the Corporate Office at the holding company and monitored by the Corporate Compliance Office. Projects and other matters are explored in regular consultations with the CEO. Our CEO Gisbert Rühl personally checks on our social commitment – especially activities in the region – several times a year, for example by visiting schools.

REGIONAL AID PROJECTS

Focus on improving education situation for children

Klöckner & Co has a clear strategy for supporting non-profit projects in Germany: our aim is to improve educational opportunities for disadvantaged children who live in our immediate vicinity over the long term. To achieve this goal, our contribution centers on local projects to educate children and young people or cater to their basic needs in Duisburg, where our headquarters are located. For over ten years now, we have focused on neighborhood work in the Marxloh area of Duisburg, where a large number of residents have a migrant background.

In this area, we work with schools, children's and youth services as well as regional charities. Klöckner & Co's engagement in the area is organized around five strategic pillars to support tomorrow's young professionals and thus make a significant contribution to strengthening the region. In the interest of continuity and sustainable results, we maintained our longstanding support in the five areas in the reporting year and drove it forward:

- 1. Basic needs:** Klöckner & Co helps organizations in Marxloh to prepare healthy meals so that children and young people can concentrate at school and socialize with each other by sharing a meal, irrespective of their backgrounds.
- 2. Essential renovation works:** In the past, we have already renovated a youth center and renewed the school yard canopy at an elementary school in cooperation with the City of Duisburg. We provided another elementary school where space was tight with multifunctional rooms. A third school benefited from the restoration of a grand piano. Schools also received support for their IT equipment during the reporting year.
- 3. Strong network:** Klöckner & Co frequently makes use of its strong network to enable Marxloh organizations to participate in exclusive projects, such as the annual "Wagner für Kinder" (Wagner for children) costume competition staged by the Bayreuth Festival in cooperation with the Fair Play foundation. Katharina Wagner, great-granddaughter of the composer Richard Wagner, joined with CEO Gisbert Rühl to visit Klöckner & Co's partner schools in Duisburg in 2019 and 2020. Together they designed costumes for the children's opera in Bayreuth. Klöckner & Co maintains an ongoing dialog with a regional foundation roundtable, thus expanding its cooperation network.
- 4. School education projects:** Since 2013, Klöckner & Co has supported the German National Scholarship awarded by Roland Berger Foundation. This program promotes gifted children with a strong will to learn who come from socially disadvantaged families, with the aim of guaranteeing them the best possible education opportunities and enabling them to complete upper secondary education and/or go on to university. In this way, we significantly contribute to removing barriers to equal opportunities among people of different social backgrounds. A partner school in Marxloh is also a beneficiary of Teach First Deutschland gemeinnützige GmbH's "Fellow" project, through which college graduates provide support to disadvantaged school students in their regular lessons. In 2019, we expanded our involvement with the Tausche Bildung für Wohnen e.V. program and continued it in 2020. In this program, six teaching mentors support elementary school children during lessons, study time and their after-school programs, and also give other neighborhood children a helping hand with their challenging lives outside of their school activities.

5. Music and creative development: Joining forces with the Ruhr Piano Festival Foundation, we developed an education project to foster children's musical and artistic development at different types of schools. The project was launched at two schools in 2012. Our musical education work has earned supraregional recognition: After garnering the "Echo Klassik" award presented by Deutsche Phono-Akademie in the Fostering Young Talent category in October 2016, as well as the "Junge Ohren Preis" in November 2014, the education program was awarded the renowned "MIXED UP Preis" in 2018. The prize awarded by the Bundesvereinigung Kulturelle Kinder- und Jugendbildung e.V. (German Federation for Cultural Youth Education) and the Federal Ministry for Family Affairs, Senior Citizens, Women and Youth praised the long-term cooperation across institutions and sectors in the Long-Runner category. Despite the COVID-19 pandemic, we succeeded in offering music projects in small groups in 2020 as well.

In addition, Klöckner & Co makes an effort to step up for children on special occasions, including initiatives such as giving all elementary-school children in Marxloh gifts and school supplies at Christmas.

Due to the COVID-19 pandemic, the Christmas party at headquarters in Duisburg was canceled in 2020. Instead, the Management Board decided to make a donation to the Stiftung Universitätsmedizin Essen foundation. This support was earmarked for fitting out a room for young cancer patients in the "blue ward" that is set aside as a retreat for teens and young adults. The room now features special IT equipment that they can use to make video calls to family and friends or stage video-game tournaments. With the virtual reality headsets provided, the young patients can explore different worlds and forget their illness and the hospital setting for a while.

In our international business, each country sets its own priorities within the framework of our donation policy. Our country organization in Switzerland, for example, has been strongly involved since 2005 in fostering young talent (under 23 years of age), stepping up as a Gold Partner in SwissSkills. It continued this work in 2020, when the competition took place despite the COVID-19 pandemic in a decentralized manner. The competition promotes top performance in some 60 training occupations and promotes appreciation for vocational training – particularly the dual educational and vocational system – in the public sphere. Group-wide procedural instructions give our country organizations a framework for such engagement. This way, we ensure that our activities have a common thrust while being tailored to individual conditions.

INTEGRATION OF REFUGEES

The integration of refugees into our society is another highly important concern for us. This particularly includes creating employment opportunities. One area with an especially large number of vacancies is the IT sector, which often makes it hard for companies to find qualified programmers. To help refugees with IT skills enter the job market, the knowledge they bring with them needs to be enhanced and supplemented in line with the needs of the German labor market in general and our business in particular. This is why Klöckner & Co supports the ReDI School of Digital Integration in Berlin as main sponsor on an ongoing basis, and again provided premises for the project during the reporting year.

Linking IT skills and integration

ReDI is short for Readiness and Digital Integration. Its students are provided with laptops and can attend beginning and advanced programming courses free of charge. Additionally, students are each assigned a mentor to help them take the course content to a deeper level. We also have our own presence in Berlin with kloeckner.i, our Group Center of Competence for Digitalization. When filling new positions, we place special emphasis on recruiting ReDI School graduates. Internships prepare ReDI students for potential permanent employment at kloeckner.i, our digital subsidiary in Berlin.

It is particularly noteworthy that Klöckner & Co's engagement resulted in a new cooperation between schools in Duisburg's Marxloh neighborhood and the ReDI School. ReDI Kids has also been offering programming classes at Berlin schools since the beginning of 2020. This offering was replicated in Marxloh on CEO Gisbert Rühl's initiative. The concept is designed as a way for the ReDI team to support teachers as they impart digital skills to the students in their own classrooms.

UNIVERSITY EDUCATION

In Germany, we maintain close contact with the European Business School (EBS) and with the University of Duisburg-Essen, where Gisbert Rühl serves as president of the booster club. In addition to high-ranking executives from our Company giving lectures at these two higher education institutions, we take part in dialog events and answer students' questions. Furthermore, we offer students internships during which they can apply content from their studies to real business situations.

For some years now, we have supported the Germany Scholarship in collaboration with the German Federal Ministry of Education and Research. Primarily directed at talented and high-achieving college students, the scholarship gives consideration to specific family and social circumstances. Our aim here is to provide support so that students can excel both academically and socially as well as within the family. Students at the University of Duisburg-Essen needed special financial support during the reporting year, prompting Klöckner & Co to contribute to the social fund. The COVID-19 pandemic did not impact all the university's students equally. Four main groups needed fast, effective support in the form of scholarships: students who provide care for others, international students, students with disabilities and students who lack the necessary technical equipment.



ENVIRONMENT

*In our business, it is not only economic criteria that play a role but also ecological and social criteria. In terms of environmental protection, we start with the environmental impacts of logistics because that is the area in which we have the greatest influence on reducing emissions. This is also a material reporting topic for Klöckner & Co. The **Environment action area** refers to the matter of environmental issues, which is required in the HGB.*

Environmental impact of logistics

Environmental protection is an important part of our SHEQ policy – our internal occupational safety, health, environment and quality policy. The CEO is functionally responsible for the area of digitalization. Governance functions related to SHEQ fall under the purview of Logistics & Operations within the Digital Transformation central department. All other functions lie with the country organizations, which have their own logistics departments.

A significant part of our business model involves shipping products to customers by truck. Klöckner & Co's key task in the Environment action area is therefore optimizing the environmental impact of logistics processes along our value chain. The Group-wide objective of our projects and measures in this area is to maintain our current high service level with fewer trucks, thereby both cutting costs and reducing CO₂ emissions.

*Optimizing logistics processes
and reducing CO₂ emissions*

To this end, we endeavor to influence the environmental impact of logistics at three levels in our value chain as a matter of principle – receipt of goods, internal transport and delivery to our customers.

At the first level, we strive to optimize the management of incoming goods. The products are mainly delivered to our sites by suppliers. Through the targeted coordination of suppliers at level one coupled with enhanced inventory management at level two, we aim to reduce the internal transport between our sites. This is achieved, for example, through optimized inventory allocation.

In addition, our internal networks in each country organization are checked on an ongoing basis. By monitoring and reporting relevant KPIs such as transport, warehousing costs and shipments, we can see where networks require adjustment. In recent years, the results of this have included improvements in the warehouse structure in eastern Germany, the commissioning of a new central warehouse in France, and the restructuring – and in some cases expansion – of existing sites in Switzerland. Additional network adjustments were undertaken as part of the Surtsey transformation project, which was launched in the first half year of 2020: 16 of 19 sites, primarily in France and the USA, were closed. Thanks to the above-mentioned adjustments, we achieved further efficiency enhancements in 2020 that resulted in both cost savings and better environmental stewardship. This consolidation to a small number of sites increases truck capacity utilization. In addition, all sites at our country organization Klöckner Metals UK and our German company Becker Stahl-Service are already certified to the ISO 14001 environmental standard, which also covers logistics.

KloECKner Metals UK attained BES 6001³ certification for responsible sourcing in 2019.

At the third level, the goods are delivered to customers from roughly 100 warehouse sites (initially in Europe only). Here, we pay particular attention to efficient delivery route planning, where key quality aspects include adherence to delivery dates along with ongoing optimum utilization of truck capacity and optimized route planning. This led us to launch a universal rollout of transportation planning software back in 2017. It is in operation throughout our EU country organizations with the exception of France. The transportation planning software delivers the data we need to reduce the fuel consumption of the trucks we use. This can include actions such as avoiding empty runs and fine-tuning delivery frequencies. Since the beginning of 2020, KlöCKner & Co Deutschland, KloECKner Metals UK and KloECKner Metals Benelux have been testing the ePOD app as a way to further improve logistics processes. The app supports the drivers during the delivery routes and forms the basis for digital documentation and transparency along the supply chain. KlöCKner & Co uses the data it gathers to plan routes better and enhance their efficiency. Several country organizations deploy state-of-the-art on-board computers that provide continuous feedback on driving behavior, vehicle speed and engine speed, thus helping to reduce truck fuel consumption and hence CO₂ emissions. In Germany, the drivers operating our modern fleet are provided with road training and regular feedback on their driving behavior. At KloECKner Metals UK, too, the Safe & Fuel Efficient Driving program has been in place since 2017.

With these measures, and above all the improved delivery route planning, we meet the ever increasing challenges – including smaller consignment sizes – faced in transportation logistics. By universally deploying the transportation planning software, we remain firmly focused on meeting our targets for cutting transportation costs while reducing CO₂ emissions through more efficient routes.

UN Global Compact "Business Ambition for 1.5°C"

For KlöCKner & Co, the area where we have the greatest influence on environmental protection is logistics. Efficiency measures in transport go hand in hand with a reduction in CO₂ emissions. Above and beyond the three levels already discussed, we are currently developing comprehensive environmental measures along the entire supply chain that are connected to long-term goals. In January, KlöCKner & Co was one of the first companies in Germany to sign up to the UN Global Compact Initiative "Business Ambition for 1.5°C" launched by pioneering companies world-wide, and we plan to align our business activities with it. Through appropriate and verifiable measures, the initiative aims to contribute to limiting the rise in global temperatures to 1.5°C by reducing greenhouse gases. We are currently in the target-development phase and are deriving the baseline data upon which to calculate a science-based reduction target within the framework of the Science Based Targets initiative (SBTi). As soon as the data has been collected and a target defined, we will submit the target to the SBTi for validation. Once it is validated, we will continue to work on implementing the goals to which we committed in the UN Global Compact "Business Ambition for 1.5°C." Our efforts in digitalization and our platform strategy support our climate ambitions, as they will enable us to anticipate steel demand with ever greater accuracy and further optimize logistics, thus reducing CO₂ emissions. The corporate departments Investor Relations, Internal Communications & Sustainability and Digital Transformation are managing the project based on this approach. Our CEO, Gisbert Rühl, is functionally responsible for both areas. The entire Management Board is also kept informed of progress of the project by the department heads.

³ BES 6001 is an independent certification system that rates and assesses manufactured products in terms of their responsible sourcing. The standard covers organizational governance, supply chain management and management requirements for sustainable development such as social and economic impacts.



DIGITALIZATION

*At Klöckner & Co, the digital transformation of our business is an essential component in our strategy of becoming a platform company by automating our core processes. In addition to the clear opportunities presented by the digital transformation, however, we also recognize the challenges for our employees. We are meeting this culture change with measures described in the **Digitalization action area**. This action area refers to a matter specific to the Group and describes the material topic of the digital transformation.*

The digital transformation at Klöckner & Co

The digitalization strategy developed by Klöckner & Co aims to eliminate information asymmetries by digitally connecting all market participants in order to increase efficiency for all. To this end, Klöckner & Co founded a digital unit, kloeckner.i, in Berlin in 2014, which now has around 90 employees. Besides the systematic digitalization of internal and external processes, an essential component of this digital transformation is a profound cultural shift within the Company. Our employees therefore need to incrementally develop their digital mindset, which is crucial to our shared migration to Industry 4.0. We have set ourselves goals for the implementation of our digitalization strategy: By 2022, we aim to generate 60% of all Group sales via digital channels. In order to achieve that, we have developed measures that aim to embed contemporary, digital ways of working and thinking in the Company and thus drive forward our internal cultural shift.

All members of the Klöckner & Co SE Management Board are working together to advance our digitalization strategy. However, the CEO has particular responsibility for strategy implementation and receives regular status and progress updates from the relevant functional managers. Operational implementation of the strategy is managed by Digital Transformation together with kloeckner.i, Group IT and external partners, among others. Group-wide, central departments coordinate the digitalization activities in each country. In Europe, the central departments work with the local digitalization representatives to implement the strategy at the individual branches. They coach their colleagues on digital tools, performing part-time and full-time tasks ranging from weekly update calls to firmly established event formats.

Digital Academy course registrations increase by 5,000, more than doubling the previous number

To ensure that everyone embraces and sees themselves as part of the changes, we have prepared a broad range of measures offering all employees the opportunity to acquire digital know-how at their own speed. Employees have access to job-specific, in-house training and language courses via our Group-wide Digital Academy in order to selectively broaden their digital skills. This enables them to take part in online training on a voluntary basis during office hours on our premises or from a home office. The academy offers numerous online courses for users, mostly with the aim of enhancing digital skills. More than 9,000 employees have already signed up for the courses the Digital Academy has to offer. When things got started in 2016, there were only a few hundred users. In 2020, we logged 5,000 course registrations, more than doubling the previous aggregate number. The course program comprises more than 30 offerings with over 100 hours of instruction altogether. Participants' feedback and requests are also taken into account in the development of new course topics so that they have a hand in shaping future training packages. In 2020, our further training focused on such topics as digitalization basics, coding, online marketing, artificial intelligence and digital business models.

The open learning format known as "Espresso Call," focusing on digital topics, has firmly established itself since the beginning of the year. The brief sessions have seen a growing number of participants since their inception. Held on Microsoft Teams, these live video sessions last 30-60 minutes each and feature experts who explain all the essentials of digital and strategic topics. The interactive calls, which give everyone a chance to ask questions, are offered in German and English.

In order to provide more in-depth practical knowledge of digital work methods, we have also implemented the Group-internal Digital Experience exchange program within our country organizations. Participants' digital and individual skills are further enhanced in a several-week stay at our digital unit kloeckner.i in Berlin. In return, the exchange with colleagues who are mostly involved in business operations gives kloeckner.i first-hand expertise in steel. Initially designed primarily for employees in Sales, the international exchange program was later expanded to other areas of the Company such as HR, and was even used by country CEOs in 2020.

Another key driver of our cultural change is in-depth internal communication to highlight for employees the need for digital transformation and to alleviate any concerns.

Connecting through Group-wide collaboration tools

As early as 2014, Klöckner & Co introduced the Yammer social network throughout the Company. Today, some 75% of employees use the hierarchy-free communications portal to exchange ideas, hold discussions and as a valuable information resource. The CEO invites all employees to engage in open dialog on Yammer and uses the tool – in addition, for instance, to regular town hall meetings – as an information channel for actions such as communicating on the progress of our digitalization strategy.

In order to enhance cooperation within the Group, promote agility and inspire enthusiasm for innovations, Klöckner & Co continued with the rollout and refinement of #DigiDesk in the reporting year. This lets the workforce make use of all Microsoft Office 365 applications via the cutting-edge intranet. The SharePoint environment also includes the Digital Academy and the employee magazine, which has been available in an interactive online format since mid-2020.

Agility is a key prerequisite for speeding up internal processes and responding instantly to customers' changing wishes – and thus gaining an edge over competitors in the marketplace. A wide range of courses, training and communications initiatives such as Yammer campaigns and posters have helped to establish agile working methods ever more firmly in the Group. This lets us meet the challenges of digital transformation and forge a link between the internal cultural shift and the operational objectives of our digitalization strategy. The growing number of employees registered at our Digital Academy and active in the corresponding Yammer group is testament to our employees' improved digital skills and new way of thinking. This is similarly reflected in the constructive suggestions and ideas put forward by employees with regard to optimizing the speed and quality of our processes.

The transformation we initiated early on, coupled with our already advanced level of digitalization, made it possible to instantly and smoothly transfer many of our activities to the home office environment at the beginning of the COVID-19 pandemic. Thanks to our high degree of digitalization, we remained operational during the crisis. The major negative economic impacts of the COVID-19 pandemic on Klöckner & Co's core business were significantly cushioned by positive effects from digitalization and restructuring under the ongoing Surtsey project in particular.

With the Surtsey project, we are also taking advantage of opportunities offered by the COVID-19 crisis to significantly step up the pace of Klöckner & Co's digital transformation into a platform company. In addition, we are continuing to optimize our site network by closing a total of 19 smaller branches and cutting costs across the organization. The workforce will be reduced by a total of more than 1,200 employees. Implementation of the measures is proceeding according to plan, with 16 sites already closed and the workforce reduced by some 1,000 as of January 2021. In the reporting period, restructuring expenses were incurred in the amount of €59 million, largely for the Surtsey project (see (6) Special items affecting the results in the consolidated financial statements). The restructuring expenses incurred for Surtsey in the past fiscal year will pay off in the long term through a considerably improved earnings situation and lower working capital. For the end of 2021, we anticipate that 55% of our Group sales will already be generated via digital channels. With higher profitability as a result of Surtsey and the increased digitalization level, we are paving the way for unlocking additional growth potential.



CUSTOMERS

*In the **Customers action area** we describe the customer-centric approach with which we conduct our business. Customer satisfaction is a topic of great importance to us. This along with the resulting customer loyalty are key factors for us that secure Klöckner & Co's long-term market success. This action area refers to a matter specific to the Group.*

Customer satisfaction

As an international steel and metal distributor, we aim to offer customers the highest quality and optimum service. Reliable service strengthens our position as the connecting link between customers and suppliers on a lasting basis. High product quality, an extensive range of services and our digital solutions make us a reliable partner to customers from all industries.

We aim for a high level of customer proximity both personally and geographically. As a result, the country organizations have full responsibility for ensuring customer satisfaction. Headquarters cannot maintain customer relationships in the same way that local offices are able to. The country organizations work on customer satisfaction every day through their close customer relationships, collaboration and surveys.

Kloeckner Assistant automates the sales process

That is why, in keeping with the design thinking approach, we always conceptualize products and services, sales channels and innovations as well as the development of digital tools and applications from the customer's perspective. Accordingly, we actively involve our customers in the process and selectively analyze their personal wishes and needs. This enables us to fulfill customers' needs faster and more efficiently thanks to a variety of digital tools, which we continue to develop on an ongoing basis – applications such as the Kloeckner Assistant, which automates large parts of the administrative sales process. For customers, that means that they receive their quotes within seconds and can order at the touch of a button rather than waiting for hours or even days for an answer. Such time frames are not unusual when quotes need to be written up and confirmed manually.

Another good example of this is the ePod app, which streamlines logistics processes at Klöckner & Co and boosts customer satisfaction at the same time. Klöckner & Co Deutschland, Kloeckner Metals UK and Kloeckner Metals Benelux have been testing this app since the beginning of 2020. It lets drivers transfer information in real time during their delivery routes. The electronic proof of delivery adds real-time data to the planning results. If, for example, goods delivered were defective, Sales usually heard about it from the customer first because the truck driver often supplied this information only after completing the route. ePod thus closes the gap between transport planning and the physical delivery to the customer.

We make use of various agile working methods from the start-up world for this purpose. To keep product development moving forward and on target, we conduct results-driven interviews with customers and use new insight methods such as mapping customer journeys. These involve visualizing the customer experience, from initial contact with the product through the entire use process to long-term product adoption. The resulting insights help us fine-tune our products, tools and services. On this basis, we first develop what is referred to as a "minimum viable product" – one that initially meets just the most basic requirements. We also apply the Lean Startup approach in a variety of in-house projects. This approach makes us significantly faster in that we meet only the most important requirements in an initial stage. Improvements can always be added progressively later on. That way, we also avoid the risk of tying up capacity for new product features that ultimately offer no added value for customers.

Our digital unit in Berlin, kloeckner.i, maintains regular contact with customers to obtain information on their requirements of the digital product portfolio and their level of satisfaction with it, and to develop it in line with their needs. Again in 2020, kloeckner.i worked continuously to further improve the range of digital product offerings and increase user friendliness. This includes new functions in the Onlineshop that make the attributes of the various product variants easier to recognize. In addition, we aim to fulfill our customers' needs by making their invoices visible in their user account as soon as the product has been delivered. A display of the quantities available including an underlying, newly implemented sales logic was also added to the Onlineshop in the reporting year. This enables the merchants to market products that are not selling well at lower prices in order to free up space in the warehouse.

At Kloeckner Metals Corporation in the USA, we have successfully introduced the first customers to the online shop tool Direct. The Direct tool was developed in cooperation with our customers and is an example of Klöckner's customer-oriented business approach that aims to lighten customers' workload. The tool helps to rationalize the purchasing process when it comes to choosing work materials, adapting orders and communicating with employees in Sales and Customer Service.

Customer surveys

In addition, international customers are regularly asked whether they are satisfied with the service provided by Klöckner & Co. The accumulated customer feedback helps to continuously improve the digital system landscape and workflows. In 2020, nearly 80% of customers said they were very satisfied with Klöckner & Co. Some 200 responses were received via the Onlineshops at the country organizations, where surveys are conducted on an ongoing basis in which existing customers can give feedback. The results are evaluated by kloeckner.i and discussed internally as well as with the country organizations.

80% of customers using the Onlineshop are satisfied

All customers of our German and Austrian country organizations are asked to give their opinions on various aspects through annual surveys. Aspects covered include availability, product range, product quality, product availability, the processing range, employee proficiency, delivery time, delivery punctuality, order documentation and complaint handling. In 2020, Klöckner Deutschland received an overall grade of 1.84 from 1,136 respondents (2019: 2.25) and our Austrian country organization was rated 1.75 by 100 respondents (2019: 1.75), each on a scale of 1 (very satisfied) to 6 (not at all satisfied). The regular customer surveys we carry out in our country organizations help to ensure the effectiveness of our working approaches and gain insights into how they are being received.

In the USA, a survey was conducted in the reporting year of some 800 customers to analyze customer loyalty with a net promoter score (NPS). The aim of this is to obtain meaningful opinions on the Part Manager – a digital platform customers can use to conveniently order and track parts – as well as its influence on perceptions of the company as a whole. Responses to the key question about whether respondents would recommend the Part Manager came in at 8.65 out of 10 points on average. Kloeckner Metals Corporation's total net promoter score, which also takes into account other factors such as organizational data and customer characteristics, was 52 on a scale of –100 to +100. That represents a further improvement of two points compared with the 2019 score, which was already considered very good.

We use these surveys to constantly improve our systems and workflows and initiate measures to enhance customer loyalty. For Klöckner & Co, satisfied customers pave the way for sustained, long-term growth.

Independent Practitioner's Report on a Limited Assurance Engagement on Non-financial Reporting¹

To Klöckner & Co SE, Duisburg

We have performed a limited assurance engagement on the separate non-financial group report pursuant to § (Article) 315b Abs. (paragraph) 3 HGB ("Handelsgesetzbuch": "German Commercial Code") of Klöckner & Co SE, Duisburg, (hereinafter the "Company") for the period from 1 January to 31 December 2020 (hereinafter the "Non-financial Report").

Responsibilities of the Executive Directors

The executive directors of the Company are responsible for the preparation of the Non-financial Report in accordance with §§ 315c in conjunction with 289c to 289e HGB.

This responsibility of Company's executive directors includes the selection and application of appropriate methods of non-financial reporting as well as making assumptions and estimates related to individual non-financial disclosures which are reasonable in the circumstances. Furthermore, the executive directors are responsible for such internal controls as they have considered necessary to enable the preparation of a Non-financial Report that is free from material misstatement whether due to fraud or error.

Independence and Quality Control of the Audit Firm

We have complied with the German professional provisions regarding independence as well as other ethical requirements.

Our audit firm applies the national legal requirements and professional standards – in particular the Professional Code for German Public Auditors and German Chartered Auditors ("Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer": "BS WP/vBP") as well as the Standard on Quality Control 1 published by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW): Requirements to quality control for audit firms (IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis - IDW QS 1) – and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

¹ PricewaterhouseCoopers GmbH has performed a limited assurance engagement on the German version of the separate non-financial group report and issued an independent practitioner's report in German language, which is authoritative. The following text is a translation of the independent practitioner's report.

Practitioner's Responsibility

Our responsibility is to express a limited assurance conclusion on the information in the Non-financial Report based on the assurance engagement we have performed.

Within the scope of our engagement we did not perform an audit on external sources of information or expert opinions, referred to in the Non-financial Report.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or

Reviews of Historical Financial Information, issued by the IAASB. This Standard requires that we plan and perform the assurance engagement to allow us to conclude with limited assurance that nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 1 January to 31 December 2020 has not been prepared, in all material aspects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

In a limited assurance engagement, the assurance procedures are less in extent than for a reasonable assurance engagement, and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the practitioner's judgment.

Within the scope of our assurance engagement, we performed amongst others the following assurance procedures and further activities:

- Obtaining an understanding of the structure of the sustainability organization and of the stakeholder engagement
- Inquiries of the Company's personnel involved in the preparation of the Non-financial Report regarding the preparation process, the internal control system relating to this process and selected disclosures in the Non-financial Report
- Identification of the likely risks of material misstatement of the Non-financial Report
- Assurance procedures performed at site level
- Analytical evaluation of selected disclosures in the Non-financial Report
- Comparison of selected disclosures with corresponding data in the group management report
- Evaluation of the presentation of the non-financial information

Assurance Conclusion

Based on the assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 1 January to 31 December 2020 has not been prepared, in all material aspects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

Intended Use of the Assurance Report

We issue this report on the basis of the engagement agreed with the Company. The assurance engagement has been performed for purposes of the Company and the report is solely intended to inform the Company about the results of the limited assurance engagement. The report is not intended for any third parties to base any (financial) decision thereon. Our responsibility lies only with the Company. We do not assume any responsibility towards third parties.

Frankfurt, 25 February 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Nicolette Behncke
WIRTSCHAFTSPRÜFERIN
[German public auditor]

ppa. Juliane von Clausbruch