



# The $\Sigma$ of opportunities.

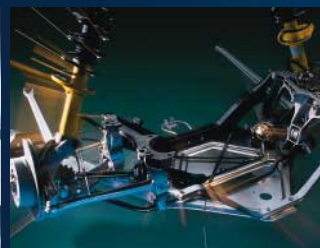
★ mathematical symbol for "sum"; sigma, 18th letter of the classical Greek alphabet

The Thyssen Krupp merger





The  $\Sigma$  of presence.





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**Materials & Services division**

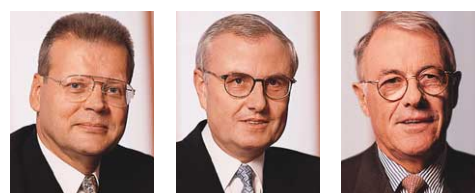
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August-Thyssen-Straße 1  
D-40211 Düsseldorf



**KRUPP**  
**Fried. Krupp AG Hoesch-Krupp**  
Altendorfer Straße 103  
D-45143 Essen

*[The main body of the document contains several paragraphs of text, which are heavily blurred and illegible due to the image's low resolution and perspective. The text appears to be a formal letter or report.]*

Dear Shareholders,

Thyssen and Krupp intend to shape their future together. We plan to pool and expand our strengths in a partnership of equals. Subject to your approval we will create a company that holds leading international positions in its core businesses.

#### Common basis

The preconditions for the merger are extremely favourable. Thyssen and Krupp are an ideal match. The number one objective for both is sustained enhancement of the value of their businesses. Both Groups are suppliers of industrial products and industrial services with a focus on Europe and North America. The positions achieved in these regions provide a sound basis for growth beyond the established markets. Thyssen and Krupp have similar structures and use comparable planning and management instruments. Both have long traditions. We want to continue what is best in both Groups and at the same time strengthen identification with the new company.

#### Challenge

To succeed in an increasingly competitive global marketplace, companies must achieve sustainable advantages in costs, technologies and sales.

This realisation is increasingly determining the strategies of Thyssen and Krupp. Both attach the utmost priority to concentrating on core businesses and core competences and expanding them internationally. In recent years both companies have taken numerous steps along the way to this goal. Thyssen and Krupp are already geared up for the future.

#### The merger makes sense

The merger represents the logical continuation of the two companies' present strategies. It offers the unique opportunity to expand international market positions more quickly, efficiently and lastingly than would be possible for either of the partners on their own. The industrial logic behind the proposed merger is impeccable. The plan for the joint company is tailored to the common core activities of the two Groups and focused consistently on value enhancement.



The yardstick for the success of the merger will be the development of its strategic potential. In addition to this strategic potential the amalgamation of the two companies will also result in considerable cost synergies. Backed by concrete measures, these synergies will amount to at least DM495 million a year. Together with the synergies from the quality steel flat-rolled merger in 1997 the total benefit will be in excess of DM1 billion.

### **Advantages for all**

The merger will create a profitable, internationally competitive Group with core competences in materials, technologies and services. Thyssen Krupp will bring advantages for all: as a competent partner for customers worldwide, as a worthwhile investment for private and institutional investors and as an attractive employer for our workforce.

Customers will benefit from the combination of expertise in our core businesses. A worldwide sales network will ensure cost-effective local service.

We want shareholders to benefit from their investment. As one of the biggest industrial groups Thyssen Krupp will rank among the major DAX stocks. The sustained value enhancement of the merged company will provide the basis for future share price potential.

The rising value of the business will benefit not only shareholders but employees as well. A company achieving high growth and high earnings will offer secure jobs with prospects for the future. Our improved position in the global marketplace will generate new momentum for our locations in Germany as well.

### **Thyssen Krupp is your chance**

The final decision on the merger rests with you, the shareholders of the two companies. At the extraordinary shareholders' meetings in late November and early December 1998 you will decide on the future of Thyssen and Krupp. The information you need to make your decision - the share exchange ratios based on the valuation of the two companies, the merger



agreement, the articles of association of the new company, the merger report and the report of the merger auditor - is at your disposal.

The merger agreement as negotiated by the two Executive Boards reflects the spirit of partnership underlying the merger. The exchange ratios have been examined and confirmed by an independent court-appointed merger auditor. In addition, international investment banks have assessed the exchange ratios to be fair and reasonable.

We ask you, our shareholders, to give your approval at the forthcoming merger meetings. Vote for the future of both companies, together let us create a strong enterprise.

Düsseldorf/Essen, October 1998

Dr. Ekkehard Schulz  
Chairman of the Executive Board  
of Thyssen AG

Dr. Gerhard Cromme  
Chairman of the Executive Board  
of Fried. Krupp AG Hoesch-Krupp

**Starting position**

Dr. Schulz

**Thyssen and Krupp - what do they have in common?**

Thyssen and Krupp are in comparable starting positions:

Both Groups have their traditional product focus in industrial goods, industrial services and steel. Due to the level of maturity achieved, these products are characterised by only low growth or stagnation in the established volume markets. In contrast, they have higher growth potential in the emerging countries of Latin America and Southeast Asia.

The regional focus of business activity is also the same. Both Thyssen and Krupp generate the majority of their sales in Europe. Less than one third of the sales of each Group is generated on markets outside Europe. As the established market regions are largely saturated and Europe, in particular, shows no major potential for growth, growth strategies in new markets are a central success factor for both Groups. Neither Group has achieved a sufficient degree of internationalisation to secure global competitiveness.

In addition, Thyssen and Krupp have similar structures. They have comparable Group structures with a management holding company, market-oriented divisions and Group member companies responsible for operating business.

Moreover, the planning and control instruments and the planning cycles underlying corporate management are the same. Both Groups use value-oriented control systems.

As a result of these similar starting situations and the fact that they are facing identical challenges on the market, the two companies are also pursuing comparable strategies to safeguard their future in a global environment. Thyssen and Krupp concentrate systematically on core businesses in which they have high competence and high production volumes and for which they expect overall above-average market growth worldwide. The core businesses are being strengthened by international expansion and by consistent active portfolio management to achieve leading market positions. The value of each company is being increased





by acquiring value-enhancing companies and disposing of marginal activities and loss makers.

### Advantages of the merger

Dr. Cromme

#### **“Big is beautiful” – is size really so vital?**

The merger offers both companies the chance to push the door to the markets of tomorrow wide open, to continue their active portfolio management on a strengthened basis, to optimise their production and sales structures, and as a result to realise high synergy and earnings potential. The exploitation of identified synergy potential and the continuation of value-oriented resource management after the merger of Thyssen and Krupp will permit even clearer focusing on sustained value enhancement than on a stand-alone basis. Together the two Groups will achieve the size needed to successfully meet the challenges presented by the globalisation of customers and competitors on the world market.

#### **What potential is there for the new Thyssen Krupp Group?**

The potential of the growth markets can be better exploited together than on a stand-alone basis. In many businesses, Thyssen and Krupp together have the size needed to advance into new markets and capitalise on their disproportionate growth while continuing to address established markets. Today approx. 80% of sales are already generated in related businesses which will complement each other well in the event of a merger. Presence on foreign markets will be considerably improved as the activities of the two companies complement each other in North and South America and in Asia. The size of the merged company will help to cover more effectively the risk involved in investing large sums in competitive sales, service and production locations in other countries.

### New potential

Dr. Schulz

Concentrating research and development spending will promote cost- and customer-oriented product innovations and strengthen the Group's ability to compete with producers from non-EU countries with national locational advantages.

Duplicate investment will be avoided. There will be no need to pay a price premium (share block premiums) for synergies generally demanded by the seller in the case of acquisitions. Both effects will save financial resources.

The increased earning power of the strengthened core businesses and the exploitation of synergy advantages will generate additional funds to finance internal growth and acquisitions.

#### **What will be the structure of the new Group?**

The Thyssen Krupp Group will have a multi-tier structure. The functions of the parent company will be to manage the Group through the setting of objectives, coordination, resource management, portfolio optimisation and ensuring that objectives are met. The parent company will thus create added value for the Group as a whole. It will act as the Group's interface with wide areas of the corporate environment, in particular the capital market and the shareholders.

Below the parent company the divisions will be formed by pooling comparable or complementary activities. By developing and implementing strategies and controlling resources in the individual divisions, the lead companies will create added value within the divisions. They will be responsible for the organisational structures of the divisions.

Below the divisions business segments will be formed where a further pooling of the activities of member companies or business units proves necessary or expedient. The business segments will be

### Group structure

Dr. Cromme



### Synergy effects

Dr. Schulz

responsible for implementing their strategies in respect of customers, products, technologies and markets and for realising synergies in their respective area. Business segments may comprise one or more Group member companies.

The Group member companies will be responsible for operating business and ensuring that specific customer requirements with regard to technology, quality, deadlines and price/performance ratio are met.

### What about the synergies?

A major argument in favour of the merger is the scale of the synergy effects. Thyssen and Krupp both expect the merger to yield at least DM495 million yearly. The synergies were calculated in autumn 1997 by a total of 19 working groups working on the basis of concrete measures. They were reviewed in summer 1998, taking into account changes in the portfolio since then. Of the total synergies, the divisions will account for DM263 million and cross-sectional functions for DM232 million. In the first full fiscal year 1999/2000 the synergies will already amount to almost DM300 million, and in the year after to DM440 million.

Once-only expenditure of approximately DM220 million will be necessary to realise the synergies. As far as possible this non-recurring charge will be included in the first year's accounts.

### How is the Group to be managed?

Overall responsibility for the Group will rest with the Executive Board of Thyssen Krupp AG. It will have the task of managing the Group as a whole.

The management of the Group will be oriented towards the divisions and their business segments and will be characterised by a division of responsibilities and extensive delegation.

The divisions will optimise their value by developing and implementing their strategies, managing resources and realising synergies. They will bear responsibility for their results.

The assumption of overall responsibility by the Executive Board of the parent company, coupled with a division of duties and extensive delegation, will require complete transparency, which will be established by means of a uniform Group-wide management information system as part of a standardised reporting system.

### Group management

Dr. Cromme

## The Executive Board of the new Thyssen Krupp AG

The Executive Board of Thyssen Krupp AG will comprise nine members with the following responsibilities:

**Dr. Gerhard Cromme**  
Executive Board Chairman  
of Thyssen Krupp AG

- Corporate development/  
Economic policy
- Communication

**Thyssen Krupp  
Automotive AG**  
Executive Board Chairman

**Dr. Ekkehard Schulz**  
Executive Board Chairman  
of Thyssen Krupp AG

- Central bureau
- Management staff
- Technical developments
- Energy and  
environment

**Thyssen Krupp  
Steel AG**  
Executive Board Chairman

**Dr. Hans-Erich Forster**  
Executive Board Member  
of Thyssen Krupp AG

**Thyssen Krupp  
Materials & Services AG**  
Executive Board Chairman

**Dieter Hennig**  
Labour director  
Executive Board Member  
of Thyssen Krupp AG

- Personnel and  
social policy
- General  
administration

**Prof. Dr. Eckhard Rohkamm**  
Executive Board Member  
of Thyssen Krupp AG

**Thyssen Krupp  
Industries AG**  
Executive Board Chairman

**Thyssen Krupp  
Engineering AG**  
Supervisory Board Chairman

**Dr. Gerhard Jooss**  
Executive Board Member  
of Thyssen Krupp AG

- Accounting
- Taxes
- Foreign  
organisation
- Materials management
- Information technology

**Jürgen Rossberg**  
Executive Board Member  
of Thyssen Krupp AG

- Legal affairs
- Group  
organisation/  
Organisation  
development
- Auditing
- Real estate

**Dr. Ulrich Middelmann**  
Executive Board Member  
of Thyssen Krupp AG

- Controlling
- Mergers &  
Acquisitions

**Dr. Heinz-Gerd Stein**  
Executive Board Member  
of Thyssen Krupp AG

- Finance
- Investor relations
- Group  
investments
- Insurance



**Market leader**

Dr. Schulz

**Where will Thyssen Krupp Steel rank in the "steel league"?**

The Steel division, to be headed by Thyssen Krupp Steel AG, will start off with sales of around DM22 billion and roughly 59,000 employees (1997). After the planned disposal of marginal activities representing sales of DM2 - 3 billion, the aim is to return to a sales level of DM22 - 23 billion in the near future.

**Thyssen Krupp Stahl** is Europe's biggest flat-rolled steel producer and ranks number three worldwide. In future Thyssen Krupp Stahl will also include the companies Rasselstein Hoesch GmbH and EBG Gesellschaft für elektromagnetische Werkstoffe mbH. Rasselstein Hoesch is one of the world's leading producers of

**In what fields is Thyssen Krupp Stahl active?**

The high value-added production of the quality steel flat products segment has so far been geared mainly to the auto sector and the packaging industry. The aim is to expand our good market positions - also against competing materials - by developing innovative solutions ("system steel"), implementing lean cost structures and strengthening our international sales activities. Additional applications are being developed in the construction industry with a view to widening the use of quality steel flat-rolled products and winning new customers. This is also the reason behind the planned expansion of the building elements business.

**Product areas**

Dr. Schulz



the packaging material tinplate. EBG is Europe's biggest producer of electrical sheet.

**Krupp Thyssen Stainless**, with production companies in Germany, Italy and Mexico, is already the world market leader in stainless steel flat products.

**What activities are grouped in Krupp Thyssen Stainless?**

Krupp Thyssen Stainless is the world's leading manufacturer of stainless steel flat products and has production companies in Germany, Italy, Mexico and in future in China as well. Acciai Speciali Terni (AST) strengthens the Steel division's position in electrical sheet while Titania, an AST investment, is Europe's leading producer of titanium. In future the range of materials will also include the nickel and nickel-base alloys produced by Krupp VDM, which will be allocated to Krupp

**Stainless activities**

Dr. Schulz

Thyssen Krupp Steel AG		
Thyssen Krupp Stahl	Krupp Thyssen Stainless	Investments

Thyssen Stainless. Krupp Thyssen Stainless will further consolidate its leading position by building up a worldwide production and sales network and by rounding off its range of materials. To this end the Shanghai Krupp Stainless joint venture was established in December 1997 to build a plant in China which is scheduled to begin production in 2001 and supply stainless flat products mainly to the growing Chinese market.

### Investments

Dr. Schulz

#### What is meant by Investments?

The Steel division also includes a number of specialist companies which are grouped together under Investments. One of these is HSP Hoesch Spundwand und Profil GmbH, which has held a leading position in sheet piling for decades. Hoesch Hohenlimburg GmbH produces medium-wide strip, a quality-oriented special product used as feedstock in the automobile industry and other sectors. The range also includes special sections used as building elements and structural components. Thyssen Schienen Technik GmbH can fall back on over 100 years' experience in the production of rails, and together with a competitor is currently the only supplier of 120-metre rails in the world.

#### What are the division's goals for the future?

The main goals and actions are as follows:

Realising synergies in related process technologies and through internal optimisation of workloads.

Cost leadership by consistent rationalisation and globalisation of production:

- Worldwide production and sales network.

- Sectoral joint ventures in the final fabrication stages of cold rolling and sheet coating.

Expanding technological leadership:

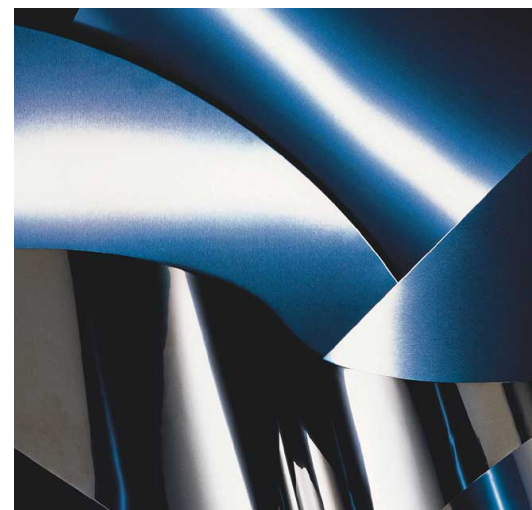
- Boosting productivity by near-net-shape casting and further advances in process technology.
- Safeguarding steel's position against competing materials by developing systems solutions with steel.

Sales leadership:

- Expanding our world leading position in stainless flat products in the growth markets of Southeast Asia, Latin America and Nafta by widening the worldwide sales network.
- Improving closeness to customers through first-stage processing in steel service centres.
- International expansion in downstream areas.
- Division of activities with the Thyssen Krupp Materials & Services division.

### Goals

Dr. Schulz





**Overview**

Dr. Cromme

**What does Thyssen Krupp Automotive stand for?**

The company produces parts, components, assemblies, and modules/systems for chassis, body, powertrain and steering applications in cars and trucks. These are typical high-volume products either developed in-house or made on the basis of designs developed in cooperation with auto manufacturers. Customers include all the well-known automobile producers and major suppliers. Thyssen Krupp Automotive AG generates sales of approx. DM10 billion and employs some 36,000 people.

The high technological competence of this division is reflected in its mastery of modern processes such as hydroforming and in its involvement in research work to develop the ultra-lightweight steel auto body (ULSAB project). Its leading technological position is also documented by the involvement of the Systems/Suspensions segment in current projects to implement lean vehicle production sites (e.g. MCC/Hambach, VW do Brasil). Thyssen Krupp Automotive has the skills to provide local assembly and just-in-time supply of complex modules and systems for world cars, manufactured to the same design by leading carmakers in all significant market regions of the world.

**Technological leadership**

Dr. Cromme

**In what areas does Thyssen Krupp Automotive have technological leadership today?**

In a number of products Thyssen Krupp Automotive ranks among the world's leading developers and suppliers. These include:

- Engine components such as crankshafts, camshafts and starter rings / flywheels;
- Welded body and chassis assemblies;
- Steering columns;
- Suspension springs.

**Which are the key regions?**

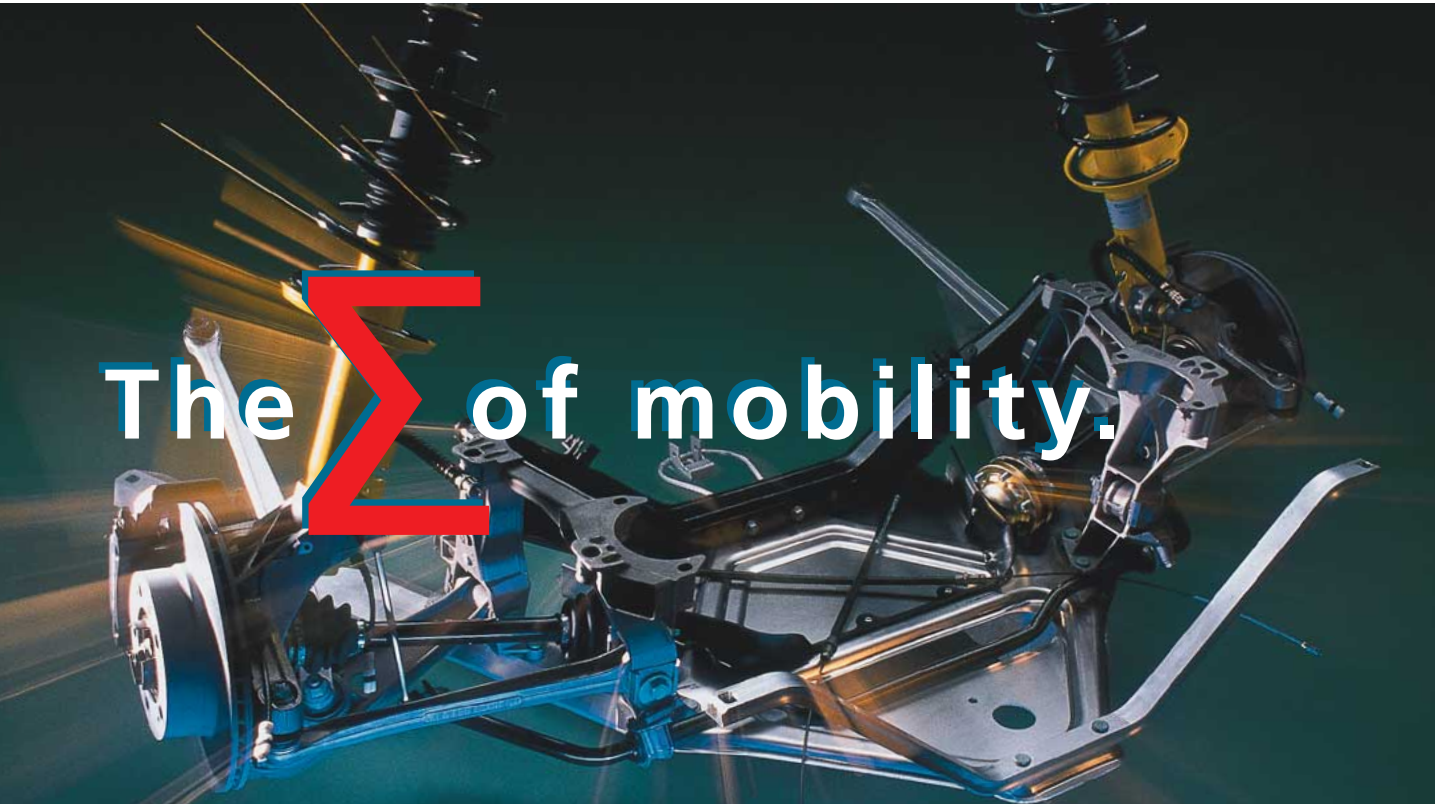
In regional terms, the division focuses mainly on Europe, North America and South America. It comprises a total of 66 individual enterprises with 99 production locations worldwide.

**Key regions**

Dr. Cromme



Thyssen Krupp Automotive AG			
Body	Chassis	Powertrain	Systems/ Suspensions



### Goals

Dr. Cromme

#### What are the goals for Thyssen Krupp Automotive?

The main goals for the future are as follows:

Positioning as a worldwide partner to the automobile industry by

- expanding market position in the volume markets of western Europe and North America
- internal and significant external growth and
- further growth in Latin America and expansion of position in eastern Europe and Southeast Asia.

Expanding leading regional positions in key components and systems.

Utilising scope for optimising capacities and processes in all business segments.

Expanding module and systems business in connection with extending the value-added chain.

Positioning as one of the top three suppliers of other products.

Achieving and consolidating cost leadership in core businesses.

Strengthening and expanding position as leading technology supplier in other areas in addition to the existing areas of hydroforming, lightweight components, modern materials.



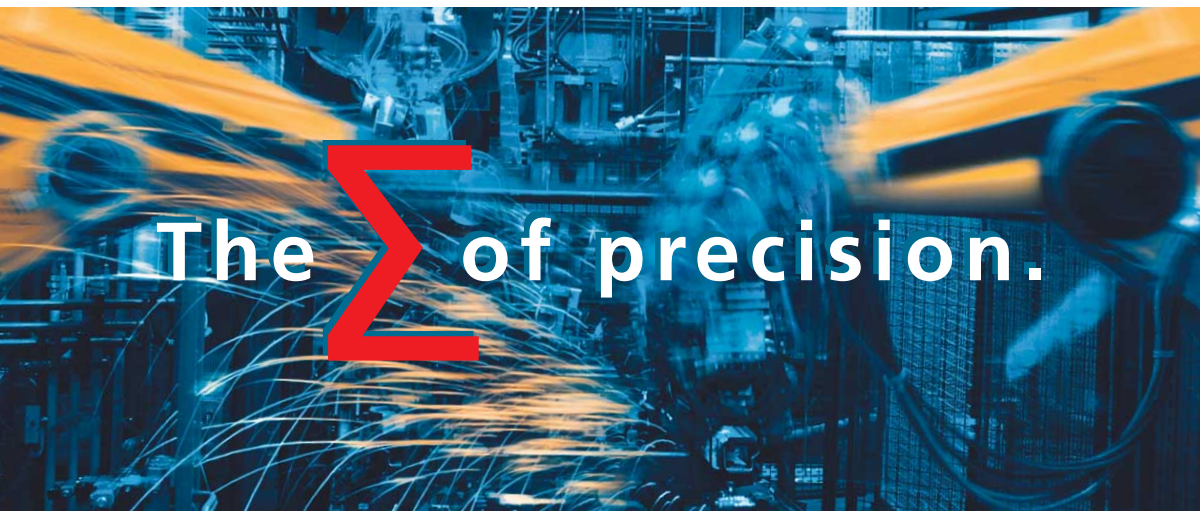
### Overview

Prof. Rohkamm

#### What are the characteristic features of the division?

The Thyssen Krupp Industries division will group together the production of high-value capital goods, specialised machinery, and systems and components for mechanical engineering. A characteristic feature of the division is that engineering for R&D, design and process technology accounts for a high share of the total value added. With around 39,000 employees, Thyssen Krupp Industries achieves sales of some DM9.5 billion. In the medium term sales in excess of DM12 billion are targeted through internal and external growth.

products of Thyssen Krupp Industries AG are as a rule limited in terms of volume, ranging worldwide from several hundred million to several billion DM. Leading positions on the international markets can therefore be achieved with relatively low sales volumes. In marketing, in particular, it will be possible to use strong regional positions for one product as the basis for achieving complementary sales positions for other products from the Thyssen Krupp Industries portfolio. In this context, close coordination and in some cases interlinking with the sales organisations of the other divisions would be an obvious next step.



### Markets

Prof. Rohkamm

#### How would you characterise the markets of Thyssen Krupp Industries?

The division competes worldwide on markets characterised by comparatively low production volumes and high technology content. On the one hand this requires particularly large engineering capacity in relation to the overall workforce, on the other hand it calls for a highly specialised, flexible and adaptable sales system capable of opening up optimum opportunities for the specific requirements of the various products and markets. The markets for the individual

#### Where and how is the division to grow in future?

Thyssen Krupp Industries will both further accelerate internal growth in the most promising key areas and make important strategic acquisitions to round off and further strengthen the portfolio. The main focus here will be on the elevators, production systems and plastics machinery segments. Activities in the components segment can also be included if above-average opportunities emerge.

#### Development of the division

Prof. Rohkamm

## Development of business units

Prof. Rohkamm

### What plans have been made for the individual business units of Thyssen Krupp Industries?

In the elevator segment further expansion by internal and external growth is planned (focuses: North and South America, Asia and eastern Europe) to improve the world market position. Furthermore, we aim to expand global market presence in maintenance and aftersales for elevators and escalators. Another goal is to safeguard the high earnings potential by improving productivity and optimising costs.

In the production systems business, it is planned to strengthen the leading position held on world markets for machine tools and special machinery by further internal and external expansion (incl. expansion of service business, addition of new products) and by integrating Giddings & Lewis and realising synergies.

The catalogue of goals for the plastics machinery unit includes expansion through internal and external growth, e.g. in blow moulding technology (Krupp Kunststofftechnik) and plastics compounding (Krupp Werner & Pfeleiderer) as well as internationalisation of purchasing and assembly operations. In the components business it is planned to further globalise our activities and consolidate



our leading market position (Hoesch Rothe Erde), and to achieve further growth through cost leadership and expansion of OEM business (Berco). The plastic window profile activities are to be contributed to a joint venture. Further aims include gaining a leading world-market position and further internationalisation particularly in North America, eastern Europe and Southeast Asia (Polymer), and strengthening our market position by further internationalisation and organic growth (Novoferm).

The goal in the shipyards business is to consolidate the leading world market position held in naval shipbuilding and strengthen the market position in merchant shipbuilding through continuous productivity improvements and cost optimisation. Priority is also attached to safeguarding our high earning and financing potential by possibly participating in a strategic alliance/joint venture.

In engineering, the objective is the further development and worldwide marketing of the Transrapid system.

#### Thyssen Krupp Industries AG

<b>Elevators</b>	<b>Production systems</b>	<b>Plastics machinery</b>	<b>Components</b>	<b>Shipyards</b>	<b>Engineering</b>
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**Key figures**

Prof. Rohkamm

**What will be the size of the Engineering division?**

To be headed in future by Thyssen Krupp Engineering AG, the Engineering division will start with sales of around DM4.3 billion, some 11,000 employees and a strong international focus. In the medium term business volume is to be significantly expanded through organic growth and acquisitions.

**In some individual business segments, Thyssen Krupp Engineering already holds leading market positions. Which segments are they?**

- specific technologies in petrochemical / chemical plant construction
- cement plants
- sugar plants and  
– in India – boiler construction
- continuous mining systems and bulk handling technology
- coke oven technology

**Market leadership**

Prof. Rohkamm



The  $\Sigma$  of experience.

# Engineering

## Thyssen Krupp Engineering AG

Chemical technology	Cement plants	Engineering India	Bulk handling equipment	Energy technology
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### Know-how

Prof. Rohkamm

#### What are Thyssen Krupp's specific strengths in plant construction?

The companies involved in engineering and construction have extensive process and project competence in the construction of turnkey industrial plants.

With their vast experience they are recognised partners to customers from the chemical, petrochemical, cement, and raw materials extraction and processing industries. A network of engineering offices close to customers around the globe permits work to be shared out on an international basis, local cost advantages to be used, project components to be purchased locally, and financing schemes to be tailored to customer requirements.

activities at the operating companies, acquiring process licences, cooperating with technology partners and forming strategic alliances with engineering companies to develop new markets and potential. A further goal is to strengthen the earnings situation through a comprehensive programme of measures to standardise administrative processes, establish an efficient, internationally oriented materials management system, and expand the global engineering network.

### Goals

Prof. Rohkamm

#### What are the future prospects for the division within the Group?

Our initial plans involve further expanding the leading world market positions on a strong technology platform (processes, components) through internal growth with the expansion/establishment of foreign subsidiaries on the main customer markets, further acquisitions in the field of chemical technology, widening the technology portfolio by intensifying R&D





### Key figures

Dr. Forster

#### What weight will the Materials & Services division have in the new Group?

The Materials & Services division, which will be headed by Thyssen Krupp Materials & Services AG, has a sales volume of around DM23 billion and 28,000 employees. The planned expansion of core businesses will increase sales to over DM28 billion in the short term.

### Growth strategy

Dr. Forster

#### What is your strategy for growth?

The short-term sales target of DM28 billion calls for external growth in core businesses by targeted investment. On the one hand, geographical diversification in materials trading will be stepped up by expanding activities in eastern Europe, South America and Asia. On the other hand, the core competences in industrial and building services are to be strengthened with a view to creating a services company which is unique in Europe. This will provide opportunities for above-average organic growth in future markets. The division's goal is to create a major national and international trading and service company with a strong competitive position.

#### How will the "materials" business develop in future?

In the materials unit we aim to become a full-range supplier of metallic materials (steel, nonferrous metal semis) in conjunction with the Steel division, and of plastics. A further goal is to attain market leadership in materials trading with service centres in Europe and North and South America, and to expand market presence in Asia. In addition, we aim to further develop the range of products and services so as to strengthen our position as a full-range service provider (one-stop shopping) focusing on key regions. Customers are to be served mostly from stock centres with primary processing capabilities. Moreover, special materials are to be incorporated and significant market positions achieved for railway equipment, construction equipment (sale and hire of sheet piling, other civil engineering materials and the requisite machinery and equipment) as well as for alloyed raw materials.

#### Development of materials

Dr. Forster

#### Thyssen Krupp Materials & Services AG

Materials	Industrial and building services	Project management
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# Materials & Services



## Industrial and building services

Dr. Forster

### What is understood by the term “building services”?

In the industrial and building services business we aim to achieve a leading position in the growing service market in Europe. We intend to become a full-range service provider for industry and for facility management by expanding the product range and strengthening core competences through close co-operation with the real estate business and integration of the information technology / networks (systems house) in the services pyramid. In addition, the industrial services already on offer are to be supplemented and strengthened with customised logistics services focusing on the steel, automotive supply and metal industries.

### What goals are you pursuing in project management?

In project management we aim to offer technology-independent services as project developer and general contractor incorporating the technologies available in the Group. We will strengthen global presence by making mutual use of the activities and local organisations available in the Group. Particular attention will be given to expanding and internationalising the municipal services (e.g. water supply and effluent disposal) and renewable energies businesses. A further goal is to use financing competence as a cross-sectional function.

## Project management

Dr. Forster





### Personnel adjustments

Herr Hennig

#### Will there be a personnel cutback in connection with the merger?

The personnel cutbacks involved in realising the synergies are estimated at approximately 2,000 employees Group-wide as things stand at present. Around half of the cuts will be in Germany. The cutbacks will be socially compatible and subject to an agreement made with the German Trades Union Federation (DGB) and the metal workers' union IG Metall which in general excludes dismissals resulting from the merger in Germany until December 31, 2001.

The exclusion does not apply to employees who reject a reasonable arrangement in the framework of the personnel concept. On the other hand, the strengthening of international competitive positions brought about by the merger is expected to lead to an increase in sales which will have positive effects on the work situation in the Group not only abroad but also in Germany.

#### What goals will you be pursuing as future labour director of the new Thyssen Krupp AG?

What I have in mind, for example, is to create jobs with reliable perspectives and safeguard employment while maintaining a regional balance in a fast growing, profitable Group. I attach utmost priority to the vocational training of young people and to Group-wide and cross-company development opportunities because dedicated and qualified staff are the basis for the success of a company.

#### To what extent are the employees involved in the merger process?

A basic agreement covering specific personnel and social matters was concluded with IG Metall and DGB on March 20, 1998. A support committee staffed from company managements, IG Metall and works councils is being kept regularly informed and involved in respect of Group-relevant and cross-company questions

### Goals

Herr Hennig

### Employee involvement in the merger process

Herr Rossberg

relating to the industrial concept and the personnel concept.

A coordination group drawn from the works councils of the two Groups is being informed regularly about the status of the organisational planning. At divisional level including the Other Member Companies, project groups staffed from the works councils of Thyssen and Krupp have been formed which examine the findings of the working parties set up by the Groups and where applicable submit suggestions regarding the further development of the industrial concept and the personnel concept.

The works councils of the individual companies will exercise their statutory participation rights in realising the amalgamation of the two Groups.

#### **What is the composition of the new Supervisory Board of Thyssen Krupp AG?**

The Supervisory Board of Thyssen Krupp AG has to be formed in accordance with the 1976 Codetermination Act (Mitbestimmungsgesetz). The number of members depends on the number of employees generally employed. As a result the Supervisory Board will be composed of 20 members comprising 10 shareholder representatives and 10 employee representatives.

#### **Will the employees of the former Groups be able to identify with "their" new Group?**

A corporate identity will be created for the new Group with which both Thyssen and Krupp can equally identify. The traditions of Thyssen and Krupp will live on in the new company and in the long term will also be manifested in the Thyssen Krupp name. The Group's improved international position will trigger a surge in



motivation and strengthen identification with the company and its goals.

The corporate philosophy of the new Thyssen Krupp Group will be based on the existing corporate philosophies of Thyssen and Krupp which agree on key points.

#### **What consequences will the merger have for employees?**

Upon consummation of the merger, all employment contracts existing with Thyssen and Krupp with all rights and obligations including the vested pension rights are transferred by virtue of law to Thyssen Krupp AG pursuant to Art. 613a of the German Civil Code (BGB).

For employees whose employment contracts are transferred to Thyssen Krupp AG, the periods of service reached and recognised at Thyssen and Krupp will be deemed to be periods of service worked at Thyssen Krupp AG. All pension obligations of Thyssen and Krupp vis-à-vis former employees (current pensions and vested rights) will likewise be transferred to Thyssen Krupp AG.

#### **Continuity**

Herr Rossberg

#### **Supervisory Board**

Herr Rossberg

#### **Corporate identity**

Herr Hennig



### Balance sheet structure

Dr. Stein

#### What are the advantages of the merger of Thyssen and Krupp from a financial point of view?

The pro-forma balance sheet of the Thyssen Krupp Group at October 1, 1998, shows an equity ratio including minority interests and the net income for the year of 26.2%. The coverage of fixed assets by long-term capital (equity and pension accruals) amounts to 94%. The ratio of gross financial borrowings to the balance sheet total is 17.6%. Net financial borrowings, i.e. gross financial borrowings less liquid funds, amount to DM6.9 billion. Net gearing (net financial borrowings as a percentage of equity funds) is 58%.

This solid balance sheet structure provides a good basis for achieving the targeted growth of the Group.

### Financing

Dr. Stein

#### How is the targeted growth to be financed?

The merger of Thyssen and Krupp will enable extensive synergies to be realised. During the five-year start-up phase up to fiscal 2002/03, the expected synergies of approx. DM1.8 billion are set against non-recurring expense and the costs of the amalgamation in the total amount of approx. DM0.4 billion. From the 2002/03 fiscal year onwards the expected yearly savings will be around DM0.5 billion.

#### How will the merger affect the investment plans of the two companies Thyssen and Krupp?

The wide overlaps in the businesses of the two Groups will make it possible to avoid duplicate investment and thus save financial resources. There will be a further inflow of funds from disinvestments. The higher earning power of the strengthened core businesses and the improved position on the international financial markets will allow the Group to generate additional funds to finance growth and acquisitions.

#### Can the Thyssen Krupp Group survive in the global marketplace?

To constantly increase the value of the new Group, it is essential that the defined core businesses hold leading positions on the world markets. Only then will it be possible to achieve and maintain international competitiveness. Only companies able to supply technologically mature, customised products worldwide at competitive prices will be able to succeed in the global marketplace and generate appropriate profits.

The merger of Thyssen and Krupp will permit more than just the realisation of the synergies already quantifiable, it will also create potential for growth and for

### Investment potential

Dr. Stein

### World market positions

Dr. Middelmann



additional enhancement of the value of the new company to an extent which cannot yet be exactly quantified. This additional earnings potential of the new Group will result in particular from its improved international presence - in conjunction with cross selling effects - and its broader product spectrum which will attract more customers.

Thanks to the merger the new Group will be represented at considerably more locations worldwide than either of the two companies on a stand-alone basis because Thyssen and Krupp's regional fit outside Europe is virtually ideal. In addition, customers at the individual locations can be offered a more comprehensive range of products and services than before. Both effects will probably lead to higher demand for the new Group's products and services in Germany, too.

The merger will result in larger corporate and operating units. Their cost-reducing potential in all corporate functions will improve the international competitive position. The increased earnings potential is a key prerequisite for accelerating internal and external growth in the core businesses.

### **How do you intend to step up internationalisation?**

The formation of national companies in important foreign markets is another lever for realising additional growth potential for the new Group. The size of the Thyssen Krupp Group, its wider coverage in individual countries together with its global presence in the eyes of the customer will make it better known. Moreover, the pooling of know-how in the individual markets will strengthen the new Group's competence and improve its market image. Following the merger Thyssen Krupp will also be a major company in the USA, with DM8.4 billion sales and around 16,000 employees.

The size of the company, its wide presence comprising 140 locations, and its combined know-how will permit the rapid establishment and expansion of promising local businesses. In India Thyssen Krupp will become one of the country's biggest engineering companies, with around 3,000 employees. By making local management know-how, knowledge of the country and political contacts available to other divisions, the new Group's position in foreign markets can be strengthened.

### **Internationalisation**

Dr. Jooss

**Success factors**

Dr. Middelmann

**What factors will affect the success of companies in an increasingly global marketplace?**

In future, even more than in the past, the competitive position of a company will essentially be determined by the following parameters:

In terms of performance, every core business has to be in the vanguard of international competition.

The corporate portfolio has to be optimised and subject to value-oriented control to further strengthen the competitiveness and earning power of the individual businesses. A prerequisite for this is the ability to actively shape a corporate portfolio and restructure it according to value-oriented criteria.

The absolute size of the company as a whole and the individual businesses must make it possible to optimise production and cost structures and lead to an increased presence on the global capital markets.

**How great a tax burden will be caused by the merger?**

The merger will lead to a real estate acquisition tax charge on the real estate owned by Thyssen AG and Fried. Krupp AG Hoesch-Krupp. In addition, the combination of 100% shareholdings in subsidiaries and sub-subsidiaries owning domestic real property is taxable. In accordance with the estimated assessment basis the real estate acquisition tax charge will probably total DM64 million. It has been confirmed by the competent tax authorities that the real estate acquisition tax triggered by the merger as part of the costs of reorganisation will be immediately deductible in full as an operating expense.

In order to avoid incurring a higher real estate acquisition tax burden due to the combination of 100% shareholdings in subsidiaries and sub-subsidiaries at Thyssen Krupp AG, minority interests in probably 8 companies of the Krupp Group and probably 20 companies of the Thyssen Group are to be sold before the merger. This has already been considered in the real estate acquisition tax charge indicated above.

The income tax effects from the sale of the minority interests and from the deductibility of the real estate acquisition tax will increase the tax burden by DM5 million to DM69 million.

**Taxation**

Dr. Jooss



## The decision rests with you, the shareholders.

The Executive Boards and Supervisory Boards of Thyssen and Krupp recommend that you, the shareholders of the two companies, approve the merger of Thyssen and Krupp.

The merger shareholders' meeting of Krupp will be called in Essen on November 30/December 1, 1998, the merger shareholders' meeting of Thyssen on December 3/4, 1998, in Duisburg.

Specifically, the subject of the resolution will be approval of the Merger Agreement. The Merger Agreement contains not only the establishment of the exchange ratios, but also the complete Articles of Association of the new Thyssen Krupp AG. In addition, in the merger resolution the shareholders will be deciding on the appointment of the members of the first Supervisory Board of Thyssen Krupp AG and the appointment of the auditors for the first fiscal year of Thyssen Krupp AG.

### What happens now?

The merger will become effective upon entry of Thyssen Krupp AG in the commercial register in Düsseldorf after the last ordinary shareholders' meetings of the two companies have previously taken place on February 25 and 26, 1999. On registration of the new Thyssen Krupp AG, the target date for which is March 1, 1999, the two transferor companies Thyssen and Krupp will cease to exist. The stock market listing of the new Thyssen Krupp shares is scheduled for early March 1999.



Nov. 30/Dec. 1, 98  
Merger Meeting  
Krupp

Dec. 3/4, 98  
Merger Meeting  
Thyssen

## Basis and calculation of the exchange ratios

### Company valuation

#### The company valuation

In the interest of a comparative company valuation, the two companies (Groups) were valued separately using identical methods. The total values of the companies comprise in each case the potential earnings values of the operating companies including the lead companies and the Group parent company, the values of the assets not required for operations, and special values (e.g. tax special values).

Separate potential earnings values were established for the activities to be continued in the divisions of the two companies. The demarcations of the individual divisions correspond by and large with the traditional divisions of Thyssen and Krupp.

The potential earnings values of the divisions contain the expenditure of the respective lead companies to be allocated to these divisions. Insofar as expenditure and earnings were not to be allocated to the divisions (e.g. expenditure of Group headquarters), these were considered separately within the framework of the valuation of the Other Member Companies.

The auditors of Thyssen AG and Fried. Krupp AG Hoesch-Krupp, KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt am Main, and C&L Deutsche Revision Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Essen, were appointed by the Executive Boards of the two companies to prepare a joint appraisal of the company values of Thyssen and Krupp.

This appraisal arrives at a company value of DM23,670 million for Thyssen AG and DM11,835 million for Fried. Krupp AG Hoesch-Krupp.

### Company values per share

#### Calculation of the exchange ratios

Based on the company values calculated in the appraisal of KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Berlin

and Frankfurt am Main, and C&L Deutsche Revision Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Essen, the company values per share are as follows:

	<b>Company value</b> <b>(DM m)</b>	<b>Capital stock</b> <b>(DM)</b>	<b>Number of</b> <b>DM50 par</b> <b>value shares</b>	<b>Company value per</b> <b>DM50 par</b> <b>value share</b> <b>(DM)</b>
Thyssen	23,670	1,715,000,000	34,300,000	690.09
Krupp	11,835	1,088,128,450	21,762,569	543.82



**Exchange ratios****1:10**

Under Art. 5 of its articles of association, the new Thyssen Krupp AG will issue no-par-value shares each representing a calculated share in the capital stock of DM5. To simplify handling, in view of the greater number of shares and higher free float at Thyssen, a round exchange ratio of 1 Thyssen share to 10 no-par-value shares in Thyssen Krupp AG is envisaged for the Thyssen shares. With a company value per Thyssen share of DM690.09 and an exchange ratio of 1:10, the proportional company value for each of the 343,000,000 new no-par-value shares in Thyssen Krupp AG to be granted to the Thyssen shareholders amounts to DM69.009.

Since the company value of Thyssen at DM23.67 billion is twice as high as the Krupp value of DM11.835 billion, in principle 171,500,000 no-par-value shares would have to be granted to the Krupp shareholders. With a total number of Krupp shares of 21,762,569, the ex-

change ratio would be 1 : 7.880503. To make it practicable to buy and sell partial rights, this is rounded down to 1:7.88. The company value of Krupp is therefore covered by the granting of shares as follows:

21,762,569 Krupp shares x 7.88 gives 171,489,044 no-par-value shares in Thyssen Krupp AG. These represent a company value of DM11,834,287,438 (171,489,044 x DM69.009 value per share). The difference between this and the full company value for Krupp therefore amounts to DM712,562. Observing the restrictions of Art. 68 para. 3 UmwG, this results in an additional cash payment per Krupp share of DM0.03 (rounded).

On the basis of the above-mentioned exchange ratios, the capital stock of Thyssen Krupp AG is calculated as follows:

**1:7.88****Capital stock**

<b>Former shareholders of</b>	<b>Former DM50 par value shares</b>	<b>Exchange ratio</b>	<b>Number of new no-par-value shares in Thyssen Krupp AG</b>	<b>Capital stock (DM)</b>
Thyssen	34,300,000	1:10	343,000,000	
Krupp	21,762,569	1:7.88	171,489,044	
			514,489,044	2,572,445,220

## Stock market trading

### Delisting

When the merger becomes effective by entry in the commercial register of Thyssen Krupp AG,

- the shares in Thyssen AG will be delisted on the Frankfurt am Main, Düsseldorf, Munich, Berlin, Bremen, Hamburg, Stuttgart and Hanover stock exchanges as well as on the London and Paris stock exchanges and the Swiss stock exchange in Zurich,
- the shares in Fried. Krupp AG Hoesch-Krupp will be delisted on the Frankfurt am Main, Düsseldorf, Munich, Berlin, Bremen, Hamburg, Stuttgart and Hanover stock exchanges as well as on the Swiss stock exchange in Zurich.

### Trading of exchange entitlements

On account of stock exchange regulations there will be a period of several working days between the delisting of the shares in the transferor companies and the listing of the shares in Thyssen Krupp AG. To take into account the interests of their shareholders with regard to the continued stock market tradability of their investment, Thyssen AG and Fried. Krupp AG Hoesch-Krupp have ensured that in this short period the exchange entitlements now evidenced by the share certificates of the transferor companies will be listed on the Frankfurt am Main and Düsseldorf stock exchanges. The exchange entitlements will be listed on the basis of one no-par-value share in Thyssen Krupp AG.

The additional cash payment will be made to shareholders of Fried. Krupp AG Hoesch-Krupp when the listing is changed to exchange entitlements.

When the merger becomes effective by registration of the merger of Thyssen Krupp AG, the transferor companies become extinct as do the membership rights in these companies. By act of law (Art. 20 para. 1 no. 3 UmwG) the shareholders of these companies become shareholders of Thyssen Krupp AG in line with the exchange ratios. The share certificates issued by the transferor companies therefore no longer evidence share rights but entitlements to exchange for shares in Thyssen Krupp AG and in the case of shareholders of Fried. Krupp AG Hoesch-Krupp to additional cash payments.

Concurrently with surrender of the Thyssen and Krupp share certificates the trustees for the shareholders of the transferor companies (Commerzbank AG and Dresdner Bank AG) will handle the exchange of shares for shares in Thyssen Krupp AG and pay out the additional cash payments to the shareholders of Fried. Krupp AG Hoesch-Krupp.

### Share exchange

**Tax effects for shares held in private property**

In principle there will be no tax effects for the shareholders of Thyssen AG and Fried. Krupp AG Hoesch-Krupp. Profit realisation will not occur as they will be exchanging their shares in the transferor entities for new shares in Thyssen Krupp AG.

If the shares are held in taxable private property and were bought within the six-month speculation period, the shares are regarded as sold at their purchase cost and the shares in Thyssen Krupp AG replacing them as acquired at this value. The merger will therefore not lead to any taxation of hidden reserves. However, in accordance with the German finance minister's decree on the Tax Reorganisation Act of March 25, 1998, a new speculation period comes into play for these shares. A taxable speculative transaction may exist if the shares in Thyssen AG or Fried. Krupp AG Hoesch-Krupp were acquired within a period of six months before the entry into effect of the merger and the Thyssen Krupp AG shares received in exchange are sold within six months after this time.

For shares in Thyssen AG or Fried. Krupp AG Hoesch-Krupp purchased outside the speculation period, the merger will have no effects on income tax. In the opinion of the tax authorities, however, a new speculation period is to start for the Thyssen Krupp AG shares received through the merger.

To the extent that shareholders of Fried. Krupp AG Hoesch-Krupp receive partial rights to shares in Thyssen Krupp AG as a result of the fractional exchange ratio and subsequently sell these partial rights, this constitutes a sale transaction. As the partial rights are calculated per deposit, theoretically partial rights for sale per deposit of at most 0.96 shares in Thyssen Krupp AG can arise for shareholders of Fried. Krupp AG Hoesch-Krupp. To this extent the tax effects are insignificant.

In the current opinion of the tax authorities, the additional cash payment for the settlement of fractions of DM0.03 to be made by Thyssen Krupp AG for each exchanged share in Fried. Krupp AG Hoesch-Krupp is liable to tax as other earnings in income from investment of capital. The shareholders will receive a corresponding tax certificate from their depository bank. The same would apply to any additional payments resulting from special court proceedings.



### Stock exchanges

Shares in the total capital stock of Thyssen Krupp AG are to be admitted for trading with an official listing on the Frankfurt am Main and Düsseldorf stock exchanges.

Admission will be applied for in time to allow official trading of the shares in Thyssen Krupp AG to commence soon

after the merger becomes effective. Efforts are being made to have the shares listed on the stock exchange in London and the Swiss stock exchange in Zurich. It is assumed that on being listed the shares in Thyssen Krupp AG will be included in the DAX.

### Shareholder structure of Thyssen Krupp AG

16.82 % AKBH Foundation <sup>1)</sup>	4.96 % Fritz Thyssen Foundation	7.64 % IFIC <sup>2)</sup>	7.00 % Thyssen Beteiligungs- verwaltung <sup>3)</sup>	1.69 % WestLB	approx. 62 % Free float
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<sup>1)</sup>Alfried Krupp von Bohlen und Halbach Foundation    <sup>2)</sup>Iran Foreign Investment Company    <sup>3)</sup>Pool Allianz AG and Commerzbank AG

At September 30, 1998, Thyssen Beteiligungsverwaltung GmbH held 10.49% and the Fritz Thyssen Foundation 7.44% of the shares in the capital stock of Thyssen AG. The remaining shares are free float. At September 30, 1998, the Alfried Krupp von Bohlen und Halbach Foundation held 50.47%, the Iran Foreign Investment Company (Iran) 22.92%, and Westdeutsche Landesbank

Girozentrale 5.08% of the shares in the capital stock of Fried. Krupp AG Hoesch-Krupp. The remaining shares are free float. On the basis of the above-mentioned interests, the major shareholders of Thyssen and Krupp will have shareholdings in the capital stock of Thyssen Krupp AG as shown above. The free float will account for around 62% of shares.

DM bn ASSETS	Pro-forma consolidated balance sheet of Thyssen Krupp AG at October 1, 1998	Share in the balance sheet total
<b>A. Fixed assets</b>		
I. Intangible and tangible assets	21.5	47.4 %
II. Financial assets	2.3	5.0 %
	23.8	52.4 %
<b>B. Current assets including prepaid expense and deferred charges</b>		
I. Inventories	7.8	17.2 %
II. Trade receivables	9.4	20.7 %
III. Liquid assets	1.1	2.4 %
IV. Other current assets including prepaid expense and deferred charges	3.3	7.3 %
	21.6	47.6 %
<b>Balance sheet total</b>	<b>45.4</b>	<b>100.0 %</b>
<b>EQUITY AND LIABILITIES</b>		
<b>A. Equity</b>	11.9	26.2 %
<b>B. Accruals</b>		
I. Accruals for pensions and similar obligations	10.4	22.9 %
II. Other accruals	6.9	15.2 %
	17.3	38.1 %
<b>C. Liabilities</b>		
I. Bonds	1.8	4.0 %
II. Bank borrowings	5.1	11.2 %
III. Trade payables	5.2	11.5 %
IV. Other liabilities	4.1	9.0 %
	16.2	35.7 %
<b>Balance sheet total</b>	<b>45.4</b>	<b>100.0 %</b>

The above pro-forma balance sheet of Thyssen Krupp AG at October 1, 1998, is based on the consolidated balance sheets of Thyssen AG and Fried. Krupp AG Hoesch-Krupp at September 30, 1998, which at the time of completing the Merger Report were likewise available on the basis of projections only.

Key figures* on the new Thyssen Krupp AG	Sales DM m	Employees
Steel	22,000	59,000
Automotive	10,000	36,000
Industries	9,500	39,000
Engineering	4,300	11,000
Materials & Services	23,000	28,000
<b>Thyssen Krupp Group</b>	<b>68,800</b>	<b>173,000</b>

\* non-consolidated figures related to the start-up of the new Thyssen Krupp Group as per Merger Report

Full information on the merger of Thyssen and Krupp is contained in the brochure "Merger of Thyssen AG and Fried. Krupp AG Hoesch-Krupp to form Thyssen Krupp AG". The Merger Report can be obtained from Thyssen AG, Investor Relations, P.O. Box 10 10 10, D-40001, Düsseldorf, and Fried. Krupp AG Hoesch-Krupp, Investor Relations, Altendorfer Strasse 103, D-45143 Essen.

This information is also available on the Internet at <http://www.thyssen.com> and <http://www.krupp.com>.

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