

IFRS Conversion

Virtual Classroom Meeting
February 01, 2006

ThyssenKrupp



Agenda

Dr. A. Stefan Kirsten

CFO & Executive Board Member of ThyssenKrupp AG

- Introduction
- Highlights
- Changes in Relevant Accounting Policies
- New Balance Sheet Structure
- Summary of IFRS Impact
- IFRS Conversion – Wrap-up



IFRS Conversion – In a Nutshell

⇒ No material impact on key performance indicators

- EBT mainly impacted by losses of reclassified discontinued operations
- Net income 2004/2005 slightly increased to €1,079 million
- Cash generation not affected by IFRS conversion

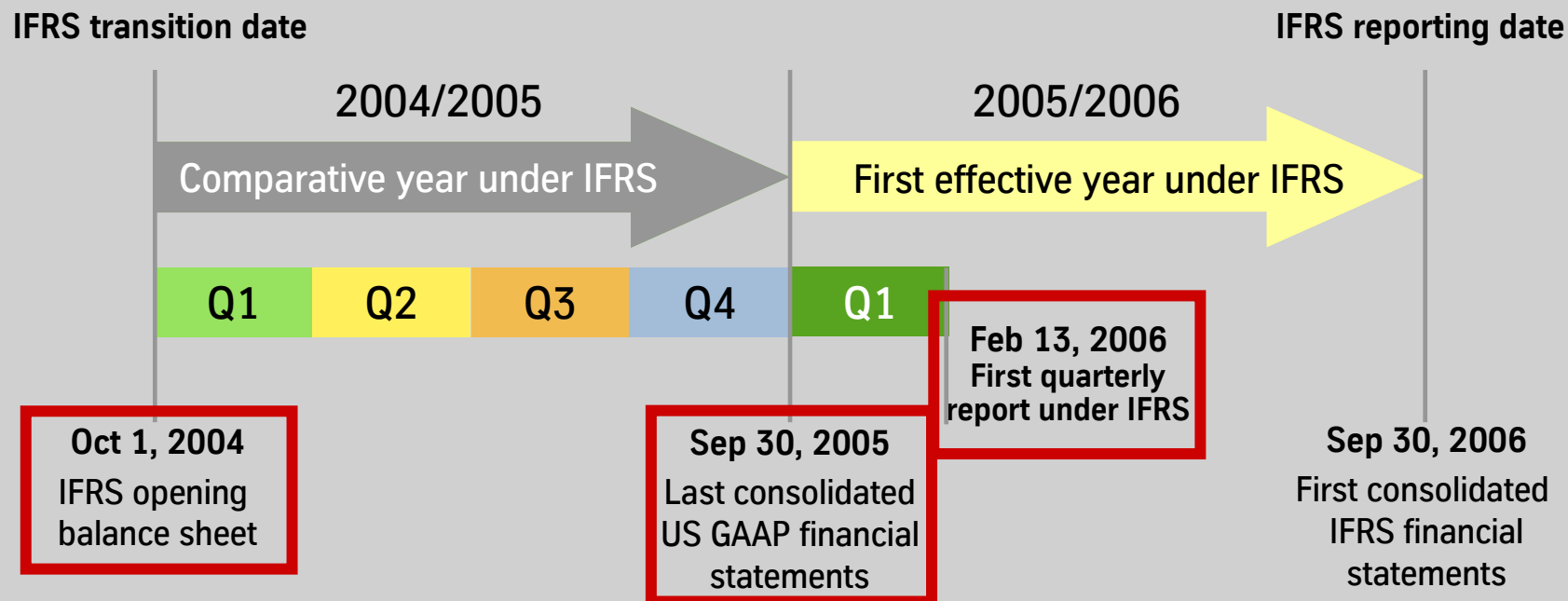
⇒ Effects on balance sheet

- Conservative asset valuation due to IFRS impairment approach
- Improved transparency due to full recognition of pensions/healthcare obligations
- Actual impact on balance sheet lowered by deferred taxes
- Change in Equity dampened



Schedule for IFRS Conversion

- Publicly traded EU-companies are required to move to IFRS accounting for fiscal years starting on/after January 1, 2005 (EU Reg. No. 1606/2002)
- Interim report **Q1 2005/2006** will be the **first financial statement** under IFRS
- Reporting under **US GAAP** will be **discontinued**



Introductory Explanations

- The presentation will focus on the differences between US GAAP and IFRS referring to the **opening balance sheet** of October 1, 2004.
 - It will further highlight the differences between US GAAP and IFRS with regard to the **balance sheet of September 30, 2005** and the consolidated **income and cash flow** statements of fiscal year 2004/2005.
 - The **Factbook** provided on the internet focuses on more detailed information as well as on the quarterly financial numbers which you need to update your models.
 - If you have any **questions** during the Virtual Classroom Meeting, do not hesitate to contact us via phone in the Q&A session following this presentation.
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Opening Balance Sheet (Oct 1, 2004)

million €	US GAAP	IFRS	Change	Major Impact
	Sep 30, 04	Oct 1, 04		
Non-current assets	16,296	15,392	-904	Goodwill (-437), PPE (-247), Inv. Property (-70), Development Costs (+77), Def. taxes (-272)
Current assets	14,626	14,836	+210	Asset-Backed Securities (+238)
Assets held for sale	219	256	+37	Assets held for sale (+37)
Total equity	8,327	7,403	-924	Total equity attr. to TK stockholders (-1,284), Minority interest (+360)
Minority interest	410	—	-410	Part of equity under IFRS
Non-current liabilities	12,294	12,739	+445	Pensions/Similar Obligations (+1,095), Financial liabilities (+60), Def. taxes (-757)
Current liabilities	9,919	10,123	+204	Financial liabilities (+238)
Liabilities assoc. with assets held for sale	191	219	+28	Liabilities ass. with assets held for sale (+28)
Total	31,141	30,484	-657	



Balance Sheet as of Sep 30, 2005

million €	US GAAP Sep 30, 05	IFRS Sep 30, 05	Change	Major Impact
Non-current assets	16,185	15,152	-1,033	Goodwill (-390), B. Comb. (+107), PPE (-181), Inv. Property (-70), Dev. Costs (+92) Def. taxes (-686)
Current assets	19,472	19,558	+86	Asset-Backed Securities (+130)
Assets held for sale	582	591	+9	Assets held for sale (+9)
Total equity	8,771	7,878	-893	Total equity attr. to TK stockholders (-1,282), Minority interest (+389)
Minority interest	481	—	-481	Part of equity under IFRS
Non-current liabilities	12,875	13,041	+166	Pensions/Sim. Oblig. (+938), Financial liabilities (+57), B. Comb. (+207), Def. taxes (-1,055)
Current liabilities	13,527	13,752	+225	Financial liabilities (+130)
Liabilities assoc. with assets held for sale	585	630	+45	Liabilities ass. with assets held for sale (+45)
Total	36,239	35,301	-938	



Itemized Adjustments Year End 2004/2005

million €	2004/2005 EBT
US GAAP	1,836
• Goodwill-Impairment	+2
• Asset-Impairment	+66
• ABS	–
• Pensions/Similar Obligations	+59
• Development Costs	+9
• Minorities	–*
• Discontinued Operations	-190
Deferred taxes	–
Others	-105
IFRS	1,677

* Impact on Net income €46 m

- ⇒ EBT down by €159 m mainly due to reclassification of discontinued operations
- ⇒ Total Equity down by €893 m (-10%)
- ⇒ Equity ratio down from 24% to 22%



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Goodwill

IAS 36

- **Similar**
 - Impairment test on an **annual basis** or at **triggering event**
- **Different**
 - Impairment test at **Cash Generating Unit (CGU)** level instead of **Reporting Unit (RU)** level
 - ⇒ **CGU level below RU level in all segments except Elevator**
 - **One-step** goodwill impairment test

million €	2004	2005
Goodwill		
US GAAP (Sep 30)	3,139	4,161
Business Combinations	32	107
Impairment (cumulative)	-437	-390
IFRS (Oct 1, 04 / Sep 30, 05)	2,734	3,878
Impact on EBT (2004/05)	–	2



Assets (I)

IAS 36

○ Similar

- Impairment test at the **reporting date** or at **triggering event**

○ Different

- **One-step** approach impairment test
- **Reduction of scheduled depreciation** expense under IFRS in 2004/05 due to additional impairments on assets in opening balance sheet
- Reclassification of **Investment Property** in a separate line item
 - ⇒ Main impact in opening balance sheet resulting from **Residential Real Estate**



Assets (II)

IAS 36

million €		2004	2005
Property, Plant and Equipment			
US GAAP	(Sep 30)	10,574	9,469
Impairment PPE (cumulative)		-247	-181
Reclassification to Investment Property*		-1,688	-627
Other		79	82
IFRS	(Oct 1, 04 / Sep 30, 05)	8,718	8,743
Impact on EBT	(2004/05)	–	66

* Impairment of Investment Property: €70 million



Asset-Backed Securities

IAS 39

- Application of the “Risk and Reward” approach
 - Derecognition of receivables from the balance sheet only if substantially all risks and rewards are transferred to the buyer of accounts receivable
 - ⇒ Some receivables sold have to be kept on balance under IFRS
 - ⇒ Increase in net financial debt

million €	2004	2005
Trade Accounts Receivable		
US GAAP (Sep 30)	5,764	5,966
Reclassification of ABS	238	130
Other Reclassifications	415	572
IFRS (Oct 1, 04 / Sep 30, 05)	6,417	6,668
Impact on EBT (2004/05)	–	–



Pensions (I)

IAS 19

○ Opening Balance Sheet

- **Application of the Fresh Start method:**

- ⇒ Direct recognition in equity of all unrecognized actuarial gains/losses according to IFRS effective October 1, 2004

- ⇒ Negative effect on Equity in opening balance sheet

- **Reduced discount rate (5.0% instead of 5.5%)* due to change of measurement date to September 30, 2004 instead of June 30, 2004**

○ Starting with balance sheet date September 30, 2005

- **Recognition of all actuarial gains/losses directly in Equity (no corridor approach)**

- ⇒ Increase/decrease in EBT because unrecognized actuarial losses/gains are not amortized as under US GAAP

- ⇒ Better transparency through complete presentation of obligations in balance sheet

- ⇒ Increased volatility of Equity

* Applicable to €-region



Pensions (II)

IAS 19

- **General changes in pension accounting**
 - **Reclassification** of pension interest cost/expected return on plan assets to **financial income/expense**
 - **Measurement date on September 30** of each fiscal year (instead of June 30)
 - **Additional provisions** due to expected voluntary early retirement agreements under IFRS, which were not recorded under US GAAP (“Anspruchs-Altersteilzeit”)
 - **No additional minimum pension liability**



Pensions (III)

IAS 19

million €	2004	2005
Pension and similar obligations		
US GAAP (Sep 30)	7,189	7,954
Adjustments	1,095	938
thereof:		
Pension obligations	484	159
Postretirement obligations other than pensions	540	716
Voluntary early retirement agreement	71	63
IFRS (Oct 1, 04 / Sep 30, 05)	8,284	8,892
Impact on EBT (2004/05)	–	59



Development Costs

IAS 38

- Recognition of Development Costs as an intangible asset, if certain conditions are met

⇒ **Development costs capitalized** for various projects in the segments
Steel, Automotive and Technologies

e.g. for

Uhde-EnviNOx[®]: process to reduce emissions of the greenhouse gas N₂O

million €		2004	2005
Development Costs			
US GAAP	(Sep 30)	0	0
Capitalization of Development Costs		77	92
IFRS	(Oct 1, 04 / Sep 30, 05)	77	92
Impact on EBT	(2004/05)	–	15



Minorities

IAS 1

- **Separate recognition of Minority Interest in the balance sheet within Equity and not outside Equity as required under US GAAP**
- **Presentation of Net Income includes the Minority Interest**
 - ⇒ **Increase of Net Income in 2004/2005**

million €	2004	2005
Minority Interest		
US GAAP (Sep 30)	410	481
Reclassification to Equity	-410	-481
thereof:		
Minority Interest	360	389
Retained Earnings	50	92
IFRS (Oct 1, 04 / Sep 30, 05)	0	0
Impact on Net income* (2004/05)	-	46

* reclassification of US GAAP Minority Interest



Discontinued Operations (I)

IFRS 5

- Qualification of a disposal group as a discontinued operation if the disposal group
 - is a major line of business or
 - represents all operations within a geographical area
- ⇒ Certain discontinued operations under US GAAP do not qualify as discontinued operations under IFRS

- **Similar**
 - **Discontinued operations under IFRS: Real Estate and MetalCutting**

- **Different**
 - **Reclassification of certain discontinued operations to EBT in 2004/2005**
 - ⇒ Reclassification of EWK, HoeschContecna, AluCastings, Truck springs, Stahl Company, Stahlbau, Turbine components, Hommel Group, Krupp Druckereibetriebe



Discontinued Operations (II)

IFRS 5

million €	2004	2005
Assets held for sale		
US GAAP (Sep 30)	219	582
Adjustments	37	9
IFRS (Oct 1, 04 / Sep 30, 05)	256	591
Liabilities associated with assets held for sale		
US GAAP (Sep 30)	191	585
Adjustments	28	45
IFRS (Oct 1, 04 / Sep 30, 05)	219	630
Impact on EBT (2004/05)	–	-190



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New Balance Sheet Structure

IAS 1

- **Current/non-current** classification of assets and liabilities “on the face” of the balance sheet

Assets	Equity and Liabilities
Intangible assets, net	Total equity
Property, plant and equipment, net	Accrued pension and similar obligations
Investment property	Other provisions
Investments accounted for using the equity method	Deferred tax liabilities
Financial assets	Financial liabilities
Deferred tax assets	Other liabilities
Total non-current assets	Total non-current liabilities
Inventories	Other provisions
Trade accounts receivable, net	Current income tax liabilities
Other receivables	Financial liabilities
Current income tax assets	Trade accounts payable
Cash and cash equivalents	Other liabilities
Total current assets	Total current liabilities
Assets held for sale	Liabilities associated with assets held for sale
	Total liabilities
Total assets	Total equity and liabilities



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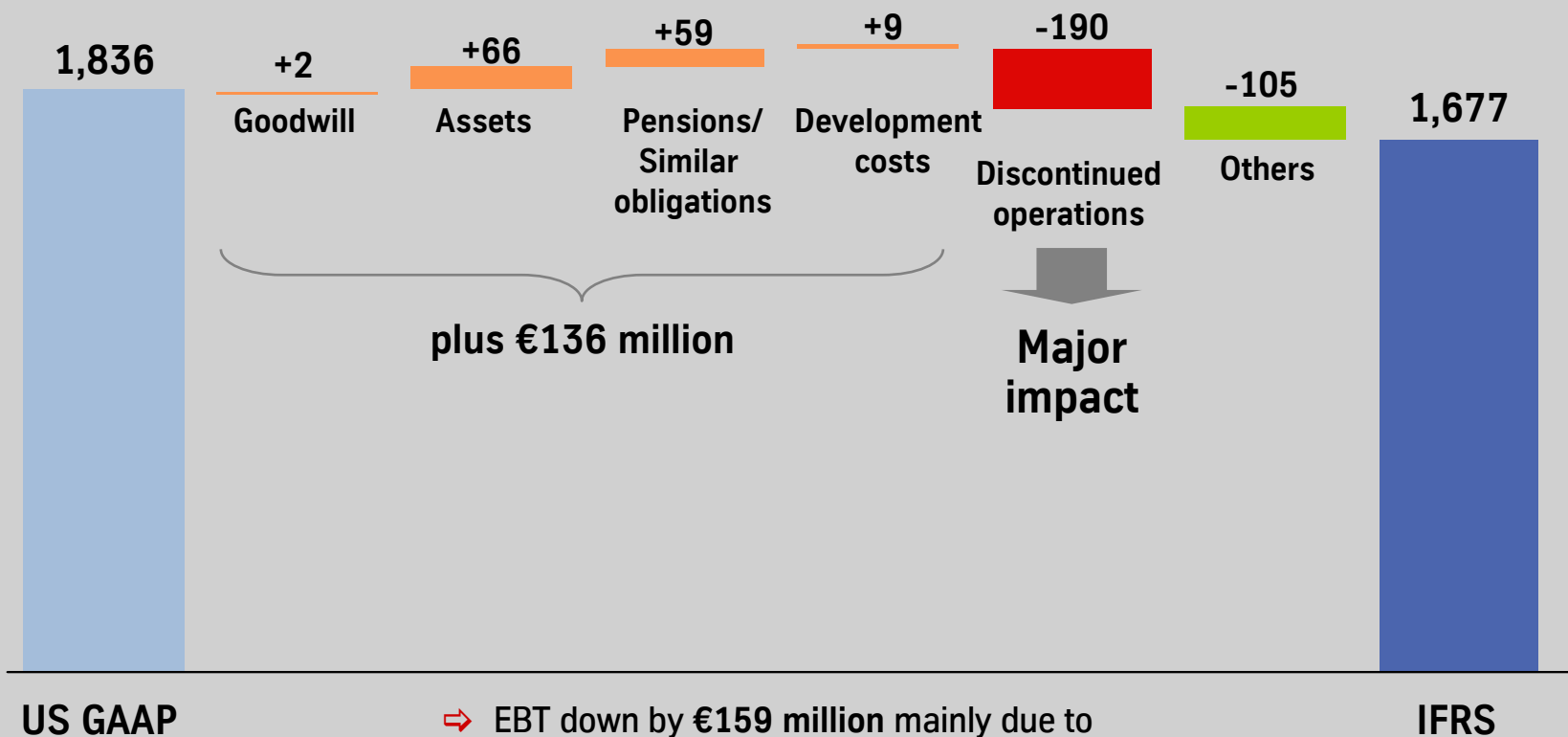
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EBT 2004/2005

Transition from US GAAP to IFRS

million €



Profit&Loss Statement 2004/2005

million €	US GAAP 2004/2005	IFRS 2004/ 2005	Change
Net sales	42,064	42,927	863
Cost of sales	(35,063)	(35,695)	-632
Gross margin	7,001	7,232	231
Selling expenses	(2,544)	(2,645)	-101
General and administrative expenses	(2,360)	(2,255)	105
Other operating income	259	276	17
Other operating expenses	(391)	(452)	-61
Gain/(loss) on the disposal of subsidiaries, net	3	16	13
Income from operations	1,968	2,172	204
Income from companies accounted for at equity	37	37	0
Other financial income/(expense), net	(169)	(532)	-363
Financial income/(expense), net	(132)	(495)	-363
Earnings before taxes	1,836	1,677	-159
Non-recurring losses related to RAG investment	(474)	(474)	0
Provisions for income taxes	(735)	(737)	-2
Minority interest	(46)	-	46
Income from continuing operations	581	466	-115
Discontinued operations (net of tax)	442	613	171
Cumulative effects of changes in accounting principles (net of tax)	(4)		4
Net income	1,019	1,079	60



Group Overview (I)

		2004/2005			
		US GAAP	IFRS	Change	Change in %
Order intake	€m	42,508	43,509	1,001	2.4
Sales	€m	42,064	42,927	863	2.1
EBITDA	€m	3,452	3,768	316	9.2
EBIT	€m	2,001	2,209	208	10.4
EBT	€m	1,836	1,677	-159	-8.7
Income from continuing operations	€m	581	466	-115	-19.8
EPS from continuing operations	€	1.17	0.85	-0.32	-27.4
Net income	€m	1,019	1,079	60	5.9
EPS	€	2.05	2.08	0.03	1.5



Group Overview (II)

	2004/2005			
	US GAAP	IFRS	Change	Change in %
Capital employed* ave. €m	17,994	18,391	397	2.2
ROCE* %	15.0	14.2	-0.8 %-p.	-5.3
TKVA* €m	1,087	955	-132	-12.1
Capex €m	1,858	1,903	45	2.4
Deprec./amort. €m	1,451	1,559	108	7.4
Net cash from operating activities €m	2,183	2,351	168	7.7
Free cash flow €m	3,146	3,272	126	4.0
Net fin. payables (Sep 30) €m	(9)	177	186	—

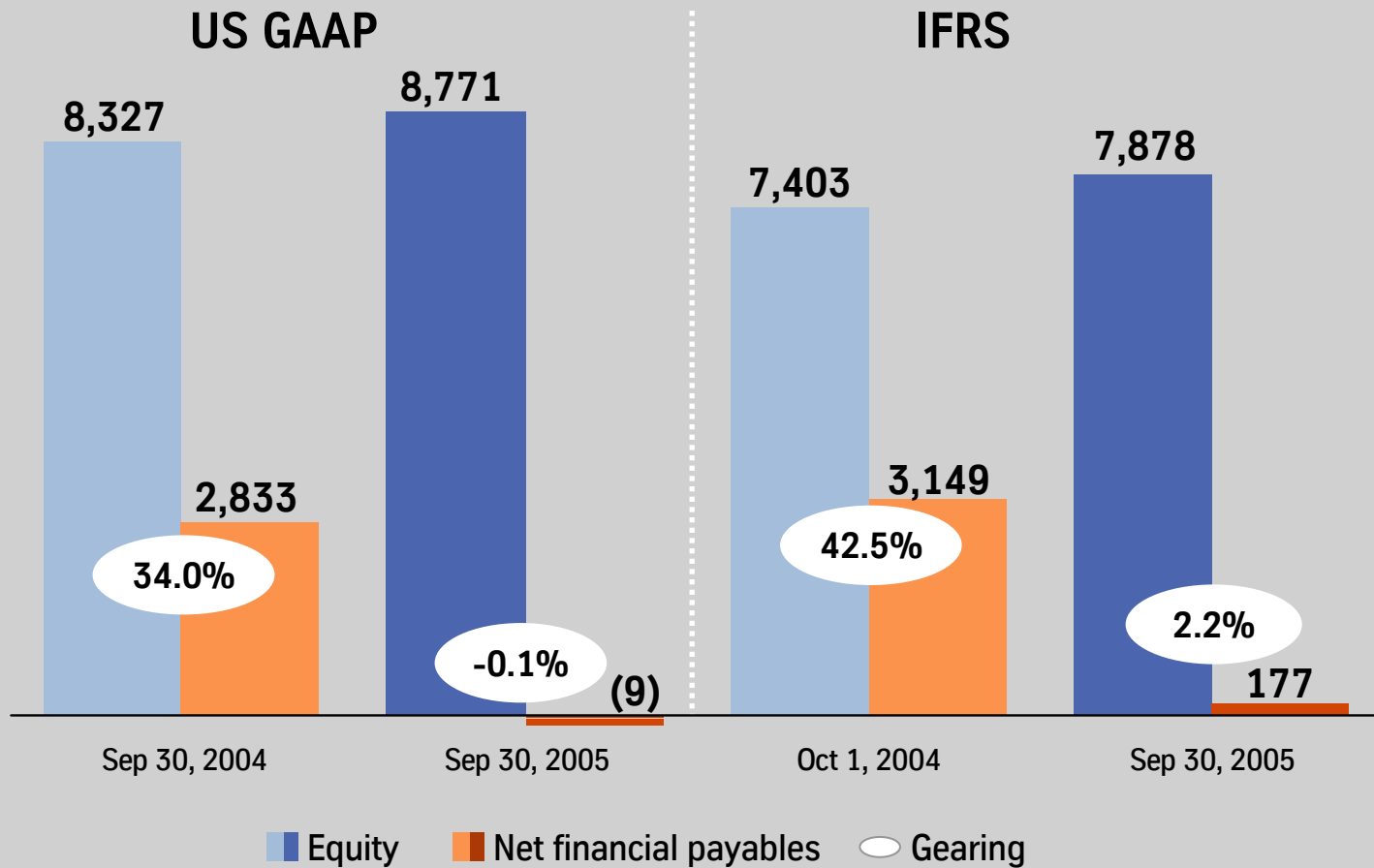
* incl. discontinued operations; figures preliminary for IFRS



Gearing

Ratio of net financial payables to equity

million €



Cash Flow in 2004/2005

- **Cash generation obviously not affected by IFRS conversion**
- Increase in net cash provided by operating activities mainly due to **reclassification of Development costs and Asset-Backed Securities**
 - ⇒ Net cash provided by investing and used in financing activities respectively down
 - ⇒ Free Cash Flow respectively up

million €	Sep 30, 2005		Δ US GAAP/ IFRS
	US GAAP	IFRS	
Net Cash provided by operating activities	2,183	2,351	168
Net Cash provided by investing activities	963	921	-42
Free Cash Flow	3,146	3,272	126
Net Cash used in financing activities	123	(3)	-126
Cash and cash equivalents at Sep 30, 2005	4,715	4,715	0



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