Management report on the group

2006/2007 was the most successful year in the history of your Company. All key figures reached new record levels. For example, sales were up by 10% from the prior year to €51.7 billion, earnings before taxes by 27% to €3.3 billion and TKVA by 40% to €2.1 billion. You can find more information on our business performance, business management and strategic goals in the following management report.

ThyssenKrupp AG
Annual Report 2006 — 2007

Pages 45 — 128

3.5 billion people live in cities.
How do we cover their raw material needs?

Find out more in the magazine in the front cover of this Annual Report.

THE WORLD'S BIGGEST METROPOLISES Population in million

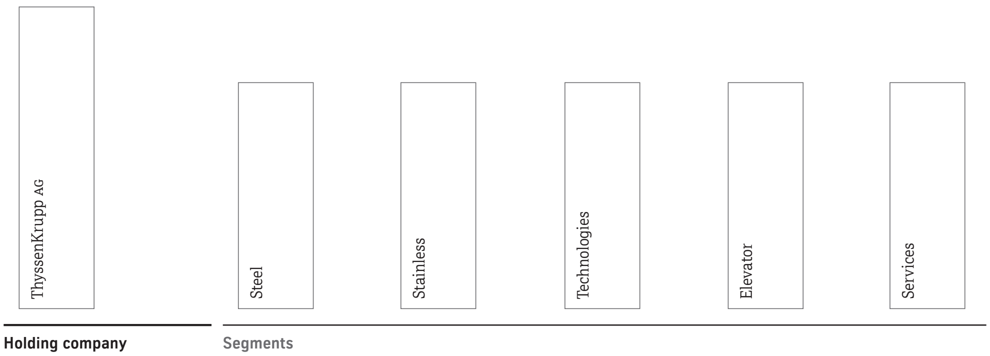
Business areas and organizational structure

Distinct capabilities, a lean organization and a management structure that permits fast and customer-oriented decisions – these factors contributed to the success of ThyssenKrupp in 2006/2007.

CAPABILITIES

ThyssenKrupp's actions are driven by customers' wishes for innovative products and services. At our plants and branches in over 70 countries, more than 191,000 employees work in the areas Steel, Capital Goods and Services to find high-quality and economically sound solutions that meet the challenges of the constantly changing markets. Our five segments – Steel, Stainless, Technologies, Elevator and Services – are among the world's leading suppliers of products and services in their markets.

COMPANY STRUCTURE



ORGANIZATIONAL STRUCTURE

Our Group is run on a decentralized basis so that decisions are made as close to the market and customers as possible. The segments, each led by a segment holding company, enjoy wide-ranging independence for all market-facing activities, while corporate strategy, portfolio management, risk management and financing are tasks for the parent company ThyssenKrupp AG. In addition, the holding company is the Group's interface to the wider business environment, in particular the capital market and the stockholders.

Founded in 1999, ThyssenKrupp AG is a stock corporation under German law. Under its Articles of Association it is dual domiciled in Duisburg and Essen, though most of its head office functions are located in Düsseldorf. From 2009 the offices will be relocated to the ThyssenKrupp Quarter, the new headquarters currently being built in Essen. A progress report on the building work can be found on page 54. ThyssenKrupp has its own Group representative offices in Berlin, Brussels and 34 other locations throughout the world. With their knowledge of the local markets, they are important contacts for our customers and Group subsidiaries.

The new head office, the ThyssenKrupp Quarter, is currently being built in Essen.

ThyssenKrupp AG owns, directly or indirectly, almost 900 companies and equity interests, which are listed on pages 191–214. The Group has more than 2,400 production sites, offices and service bases, two thirds of them located outside Germany. The largest of our almost 1,300 locations is Duisburg, with over 18,000 employees.

MANAGEMENT RESPONSIBILITIES IN THE GROUP

In parallel with the portfolio optimization, we have further developed the Group's management structure in recent years. On the Executive Board of ThyssenKrupp AG, which is responsible for the management of the Group, members responsible for segments and corporate functions are represented on an equal footing. In addition, the Executive Board members are responsible for specific regions based on the principle that the chief executives of the segments which have the strongest commercial involvement in a region take responsibility for that region in addition to their responsibility for segment operations.

High potentials are given more demanding tasks and greater responsibility.

At all management levels our goal is to achieve a creative mix of internal and external, young and experienced, German and international managers. Young executives are systematically trained to take on senior roles. High potentials are given increased responsibility, which may involve switching between individual segments or between segments and corporate departments.

COMPENSATION REPORT

The Compensation Report is contained in the Corporate Governance Report on pages 28–34 and forms part of the management report on the Group.

DISCLOSURE OF TAKEOVER PROVISIONS

The following information is presented in accordance with Art. 315 par. 4 of the German Commercial Code (HGB).

Composition of capital stock

The capital stock of ThyssenKrupp AG remains unchanged at €1,317,091,952.64 and consists of 514,489,044 no-par value bearer shares. Each share carries the same rights and grants one vote at the Annual General Meeting.

Shareholdings exceeding 10% of the voting rights

There is one direct shareholding in the Company which exceeds 10% of the voting rights: In accordance with the statutory requirements, the Alfried Krupp von Bohlen und Halbach Foundation, Essen informed us on December 21, 2006 that at that date it held around 25.10% of the voting rights of ThyssenKrupp AG.

Appointment and dismissal of Executive Board members, amendments to the Articles of Association

The appointment and dismissal of members of the Executive Board of ThyssenKrupp AG is subject to Arts 84, 85 German Stock Corporation Act (AktG) and Art. 31 Codetermination Act (MitbestG) in conjunction with Art. 6 of the Articles of Association. Amendments to the Articles of Association are subject to the approval of the Annual General Meeting with a majority of at least three quarters of the capital stock represented; Arts 179 ff. AktG apply. Under Art. 11 par. 9 of the Articles of Association, the Supervisory Board is authorized to resolve amendments to the Articles of Association which relate only to their wording. The Supervisory Board is also authorized to amend Art. 5 of the Articles of Association (Capital Stock and Shares) depending on the use of authorized capital. If the authorized capital has not been used or has been only partly used by January 18, 2012, the Supervisory Board may also amend the wording of Art. 5.

Authorization of the Executive Board to issue shares

The capital stock may be increased by up to €500 million by the issue of new shares.

Under Art. 5 par. 5 of the Articles of Association, the Executive Board is authorized, with the approval of the Supervisory Board, to increase the Company's capital stock on one or more occasions on or before January 18, 2012 by up to €500 million by issuing up to 195,312,500 new no-par value bearer shares in exchange for cash and/or contributions in kind (authorized capital).

It may exclude stockholders' subscription rights with the approval of the Supervisory Board in the following cases:

- for fractional amounts occurring as a result of the subscription ratio;

- to grant subscription rights for new shares to the holders of conversion and/or option rights or conversion obligations outstanding at the time the authorized capital is utilized in respect of convertible bonds and/or options already issued or to be issued in future by the Company or its subsidiaries to the extent to which they would be eligible as stockholders after exercising the conversion and/or option rights or after fulfillment of the conversion obligations;

- if the issue price of the new shares is not significantly lower than the stock market price of shares already quoted on the stock market at the time the final issue price is determined and the shares issued do not exceed altogether 10% of the capital stock either at the time this authorization becomes effective or at the time it is exercised;

- in the event of capital increases in exchange for contributions in kind.

The sale of treasury stock shall be counted against the 10% capital limit insofar as it takes place during the term of this authorization to the exclusion of subscription rights pursuant to Art. 186 par. 3 sentence 4 AktG. Shares issued to service bonds with conversion and/or option rights and conversion obligations shall likewise be counted against the 10% capital limit insofar as the bonds are issued during the term of this authorization to the exclusion of subscription rights analogously applying Art. 186 par. 3 sentence 4 AktG. The Executive Board is authorized, with the approval of the Supervisory Board, to determine the further content of the share issue and the conditions of the share issue.

Authorization of the Executive Board to repurchase stock

The Company is authorized until July 18, 2008 to purchase treasury stock up to a total of 10% of the capital stock.

By resolution of the Annual General Meeting of January 19, 2007 the Company was authorized until July 18, 2008 to repurchase treasury stock up to a total of 10% of the current capital stock of €1,317,091,952.64. The authorization may be exercised in whole or in installments, once or several times, in pursuit of one or several purposes by the Company or by third parties for the account of the Company. At the discretion of the Executive Board, the buy-back may be effected on the open market or by means of a fixed-price/Dutch auction tender offer. The countervalue per share paid by the Company (excluding incidental costs) may not be more than 5% higher or lower than the price determined on the day of trading by the opening auction in the Xetra trading system (or a comparable successor system).

If the shares are repurchased by means of a tender offer, the tender price or the limits of the price range per share (excluding incidental costs) may not be more than 10% higher or lower than the average closing price in the Xetra trading system (or a comparable successor system) on the three trading days before the date of the public announcement of the offer.

If, after announcement of a tender offer, the relevant price is subject to significant changes, the tender offer may be amended. In this case the price is based on the average price over the three days of trading before the public announcement of an amendment. The tender offer may specify further conditions. If the offer is over-subscribed or, in the case of a Dutch auction, not all of several equal tenders can be accepted, tenders must be accepted on a quota basis. Priority may be given to small lots of up to 100 shares per stockholder.

The Executive Board is authorized to use shares of the Company acquired on the basis of this authorization for all legally permissible purposes. In particular it may cancel the shares, sell them by means other than on the open market or by offer to stockholders or sell them in exchange for a contribution in kind and use them to discharge conversion rights in respect of convertible bonds issued by the Company or the Company's subsidiaries. In the latter three cases, the stockholders' subscription rights are excluded. The Supervisory Board may determine that measures of the Executive Board under this authorization are subject to its approval.

By resolution of the Annual General Meeting of January 23, 2004, the Executive Board was authorized up to January 22, 2009 to carry out the following measures with the approval of the Supervisory Board:

- to issue bearer bonds in the total par value of up to €500,000,000 and to grant the bond holders the right to convert the bonds into no-par value bearer shares of ThyssenKrupp AG (convertible bonds);

- to exclude the stockholders' subscription rights to convertible bonds if this is necessary (1) for fractional amounts occurring as a result of the subscription ratio, provided the issue price for the convertible bonds is not significantly lower than their theoretical fair value calculated according to recognized financial calculation methods and (2) to grant holders of conversion rights from previous bond issues subscription rights in the amount to which they would be entitled upon exercising their conversion rights. The conversion price for treasury stock must not be lower than 80% of the average closing price in the Xetra trading system over the three days of trading before the date of the public announcement of the offer or acceptance of a tender. The Executive Board determines the conditions for conversion bonds.

Key agreements subject to conditions

ThyssenKrupp AG is party to the following agreements that are subject to change of control provisions as a result of a takeover bid:

There are two agreements subject to change of control provisions as a result of a takeover bid.

- The Company has concluded an agreement with a banking consortium on a committed credit facility in the amount of €2.5 billion. This agreement can be terminated with immediate effect if the Company becomes a subsidiary of another legal entity or natural person and termination is requested by a group of banks representing more than 50% of the credit facility.

- Further, the Company is party to a shareholders' agreement in respect of Atlas Elektronik GmbH (joint venture) under which the co-shareholder EADS Deutschland GmbH has a call option on specific assets and liabilities of the joint venture at fair value in the event that a competitor of the joint venture or of the co-shareholder directly or indirectly acquires a controlling interest in the Company. If the call option is exercised, ThyssenKrupp Technologies AG is entitled to purchase all the co-shareholder's shares in the joint venture at fair value plus 5% premium. If the call option is not exercised, the co-shareholder has a put option in respect of the shares in the joint venture at the specified purchase price conditions.

Business management – Goals and strategy

A forward strategy with sustainably high sales and earnings targets keeps ThyssenKrupp on growth course. Our value-based management approach, which systematically increases the value of our Company, and the more than 6,000 successful projects under our ThyssenKrupp best value enhancement program are paying dividends.

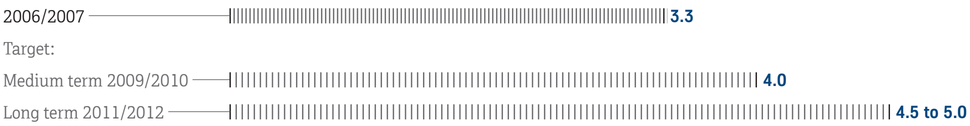
STRATEGIC DEVELOPMENT: GROWTH IN ALL SEGMENTS

Following completion of the consolidation phase, ThyssenKrupp embarked on a course of sustainable and profitable growth. The numerous portfolio changes and process improvements implemented now form the basis for significant growth. As part of our value-based management system, which is aimed at sustainably increasing the value of the Company, we are pursuing ambitious targets. All the Group's segments will contribute to meeting these targets.

In the medium term we aim to achieve sustainable earnings before taxes and major nonrecurring items of €4 billion on sales of €60 billion. In the longer term, particularly after the completion of the major investment projects by Steel and Stainless in North America and by the other segments in other regions, we expect sales in the region of €65 billion and earnings before taxes and major nonrecurring items of €4.5 to 5.0 billion.

SALES TARGETS in billion €

EARNINGS TARGETS in billion €



Sustainable growth also means ambitious targets for sales, EBT, TKVA and ROCE.

For our key performance indicator – ThyssenKrupp Value Added – we are looking to achieve a medium-term figure in the region of €2.5 billion, rising over the longer term to €3 billion. The comparable targets for return on capital employed (ROCE) are 21.4% and 22.0%. More information on our value-based management system can be found on pages 54–58.

THYSSENKRUPP VALUE ADDED TARGETS in billion €

ROCE TARGETS in %

Construction of new plants on schedule

The Steel segment is working with great determination to implement its transatlantic growth strategy. Construction of the new slab mill in Brazil is making good progress; site preparation has been completed and work on building the production units and infrastructure is now in full swing. When it starts production in 2009, the mill will supply 5 million metric tons of low-cost slabs per year to ThyssenKrupp Steel's European and North American production sites.

The construction of the new joint Steel/Stainless complex in Alabama, USA, began on schedule.

In Calvert, Alabama/USA, work on the construction of the new joint Steel/Stainless complex also started on schedule. The location on the Tombigbee River provides very good logistical links for the supply of raw materials. The new plant will include hot rolling, cold rolling and coating facilities and will process slabs from the Brazilian mill into high-quality flat products. On completion in 2010, it will have a hot rolling capacity of over 5 million tons per year. In the future, the Steel segment will serve the NAFTA markets from this plant.

Steel will strengthen its position on its home European market by extending and modernizing its existing facilities step by step.

The growth strategy of the Stainless segment also centers on expanding its presence on the NAFTA markets. To this end it is building an integrated mill for flat-rolled stainless steel products at the joint site in Calvert, including meltshop, cold rolling, processing and finishing facilities. The slabs produced in the meltshop will be rolled on Steel's hot strip mill. The planned capacity of the stainless steel facility is around 1 million tons per year. In the future, the Mexican stainless steel subsidiary ThyssenKrupp Mexinox will also be supplied with hot-rolled coil from this location.

In addition to expanding its market position in North America, the Stainless segment is also optimizing its European facilities. Following the closure of its Turin plant, Italian subsidiary ThyssenKrupp Acciai Speciali Terni is developing its Terni site into a world-class integrated stainless steel mill.

Growth through expansion of existing activities and strategic acquisitions

The growth strategy of the Technologies segment is focused on the mega-trends of climate, environment, infrastructure and mobility, for which its range of technologies offers intelligent products and solutions such as components for car and truck manufacture, slewing bearings for wind turbines and equipment for oil sands mining.

The Elevator segment is expanding its existing business, focusing in particular on Asia and Eastern Europe. To achieve this growth we intend to further intensify our service activities. In addition, product innovations such as the TWIN elevator, with two cabs running independently in one shaft, and the TurboTrack passenger transportation system – described on page 104 – are also expected to bring in additional orders.

In the Services segment, we see future growth opportunities in the areas of material and industrial services, where existing activities will be expanded and supported by strategic acquisitions. Eastern Europe, NAFTA and Asia will be the key markets.

Under the Groupwide ThyssenKrupp best sales & service initiative, numerous projects have been realized in all segments to accelerate the growth of our sales and service activities.

The ThyssenKrupp best sales & service initiative is bearing fruit in all segments.

Ground broken for new ThyssenKrupp Quarter

The plans announced last year to concentrate our head office functions in Essen and Duisburg are beginning to take concrete shape. Construction work on the new Quarter in Essen started with the symbolic ground-breaking on June 12, 2007. The first departments are scheduled to start work there in early 2009. In addition to the Group holding company, the Quarter will also accommodate the Technologies, Elevator and Services segment holding companies as well as the ThyssenKrupp Academy.

BUSINESS MANAGEMENT THROUGH VALUE-BASED MANAGEMENT

The Group is managed and controlled using a value-based management system. Our objective is to systematically and continuously increase the value of the enterprise – through profitable growth and a focus on businesses which offer the best development opportunities in terms of competitiveness and performance. An integrated control concept, value-based performance indicators as well as measures to enhance efficiency and optimize capital employed are key elements of our management system.

Control concept secures Groupwide transparency

Our integrated control concept guides and coordinates the activities of all segments, supports the decentralization of responsibilities and guarantees Groupwide transparency. It aims to increase the value of the Group by bridging operational and strategic gaps between the actual and target situation through the use of concrete measures. For this we have established high-quality systems for the up-to-date reporting of actual and forecast figures of both strategic and operating elements. This focus on value creation pervades all management processes. As measures of business success, the main performance indicators used in value management are also used to calculate the variable components of management compensation.

ThyssenKrupp Value Added as central performance indicator

Capital employed is a key parameter for TKVA.

The central performance indicator for value-based management in the Group is ThyssenKrupp Value Added (TKVA). TKVA measures the value added in a period at all levels of the Group. It is the difference between ROCE (return on capital employed) and WACC (weighted average cost of capital), multiplied by capital employed. Capital employed is defined as invested assets plus net working capital.

CALCULATION OF THYSSENKRUPP VALUE ADDED (TKVA)

In addition to TKVA, cash flow is also taken into consideration to ensure that, especially in growth phases, the Group portfolio comprises a balanced mix of value drivers and cash providers.

An alternative method of calculating TKVA using absolute figures is as follows: earnings before interest and taxes (EBIT) minus cost of capital. Cost of capital represents the expected return on equity and debt. It corresponds to the product of WACC and average capital employed.

The weighted average cost of capital (WACC) is the minimum return demanded by investors and creditors. It is calculated on a pre-tax basis and comprises the weighted average cost of equity and debt as well as the interest rate for pension obligations:

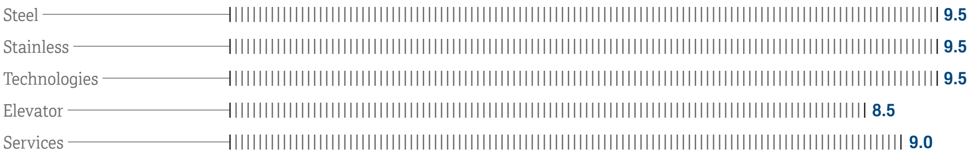
- The cost of equity of our Group is based on the return from a risk-free alternative investment plus a market risk premium and taking into account the specific risk of ThyssenKrupp in relation to the overall market. The specific risk is expressed by the so-called beta factor. The weighted average cost of equity calculated on this basis corresponds to a weighted average cost after operating taxes. Since the cost of capital at ThyssenKrupp is calculated on a pre-tax basis, a tax adjustment is carried out.

- The cost of debt (cost of financial liabilities) is the interest on a risk-free alternative investment plus a company-specific risk premium. Based on the current market situation and subject to the condition that the current investment-grade status is maintained, we currently base our calculations on a premium of one percentage point.

- The interest rate for pension accruals is calculated on the basis of the weighted five-year average discount rate for internally financed pension plans and healthcare obligations.

On the basis of the above factors, the weighted average cost of capital for the Group was 9% in fiscal 2006/2007. Specific WACC figures are established for the segments which reflect their respective risk structures. In the reporting year, the segment WACC figures were:

WACC FOR THE SEGMENTS in %



Since the business environment is constantly changing, the weighted average cost of capital is regularly reviewed and adjusted if necessary. For fiscal year 2007/2008, WACC for the Group and the segments has been lowered by 0.5 percentage points mainly due to the impact of German tax reforms and the resultant lower tax adjustment for the cost of equity. The pre-tax weighted average cost of capital for the Group has thus been reduced to 8.5%.

Application of the value management system

Profitable growth, higher operating efficiency and optimized capital employment help increase TKVA.

Three levers can be used to increase TKVA: profitable growth, increases in operating efficiency, and optimization of capital employed. Value through profitable growth is created in particular by new investment projects, provided they generate returns higher than their cost of capital. A major contribution to increasing operating efficiency is made by the ThyssenKrupp best value enhancement program, which is described in more detail on pages 58–60. Capital employed as the third lever to increase TKVA can be optimized by withdrawing from business activities in which the cost of capital cannot be earned. Alternatively, targeted programs can be implemented to release capital, i.e. to reduce capital employed without reducing EBIT.

The following tables show how TKVA and its components developed over the last two fiscal years:

COMPONENTS OF THYSSENKRUPP VALUE ADDED (TKVA)

	2005/2006						
	EBIT (million €)	Capital employed (million €)	ROCE (%)	WACC (%)	Spread (% points)	TKVA (million €)	
Group	3,044	17,056	17.9	9.0	8.9	1,510	
Thereof:							
Steel	1,482	6,380	23.2	9.5	13.7	876	
Stainless	489	3,048	16.0	9.5	6.5	199	
Technologies	408	2,295	18.9	9.5	9.4	215	
Elevator	423	1,876	22.6	8.5	14.1	264	
Services	553	2,884	19.2	9.0	10.2	294	

	2006/2007						
	EBIT (million €)	Capital employed (million €)	ROCE (%)	WACC (%)	Spread (% points)	TKVA (million €)	Change TKVA (million €)
Group	3,728	18,000	20.7	9.0	11.7	2,108	598
Thereof:							
Steel	1,761	6,557	26.9	9.5	17.4	1,138	262
Stainless	871	3,827	22.7	9.5	13.2	507	308
Technologies	518	2,239	25.0	9.5	15.5	348	133
Elevator	(75)	1,776	(4.2)	8.5	(12.7)	(226)	(490)
Services	787	3,330	23.6	9.0	14.6	487	193

TKVA rose by around 40% to €2.1 billion in 2006/2007, while ROCE increased from 17.9% to 20.7%.

The ThyssenKrupp Group's earnings before interest and taxes (EBIT) increased by €684 million to €3,728 million in fiscal 2006/2007. The positive impact this had on ROCE was weakened by the increase in capital employed. Average capital employed increased by €944 million to €18,000 million in 2006/2007. ROCE increased in the reporting year to 20.7%, compared with 17.9% a year earlier; the Group's WACC of 9.0% was thus again significantly exceeded. TKVA increased by €598 million to €2,108 million. The improvement in profitability and TKVA is due to the large increase in operating earnings on the basis of a successfully optimized business portfolio. Without the influence of the EU fine imposed on ThyssenKrupp Elevator for alleged anti-competition behavior in Germany and the Benelux countries, the improvement in ThyssenKrupp's value indicators would have been even greater. ROCE would have been 23.2% and TKVA €2,577 million.

In the Steel segment, earnings before interest and taxes rose by €279 million to €1,761 million thanks to the positive operating situation. ROCE increased from 23.2% to 26.9%. TKVA was €1,138 million, an improvement of €262 million compared with the prior year.

The Stainless segment achieved a €382 million improvement in earnings before interest and taxes to €871 million. However, the resultant increase in ROCE was weakened by a €779 million increase in capital employed to €3,827 million. ROCE in the reporting year was 22.7%, compared with 16.0% a year earlier. TKVA was €507 million, up €308 million from the prior year.

Earnings before interest and taxes at Technologies grew by €110 million to €518 million. With capital employed virtually unchanged, ROCE increased from 18.9% to 25.0%. TKVA improved by €133 million to €348 million.

In the Elevator segment, earnings before interest and taxes decreased from €423 million in the prior year to €(75) million. This is mainly due to the fine imposed by the EU Commission. As a result, ROCE dropped from 22.6% to (4.2)%, and TKVA from €264 million to €(226) million. Without the impact of the fine, ThyssenKrupp Elevator would have almost equaled its prior-year ROCE and TKVA figures.

In the Services segment, earnings before interest and taxes increased by €234 million to €787 million in fiscal 2006/2007. With capital employed up by €446 million to €3,330 million, the segment achieved ROCE of 23.6%, compared with 19.2% a year earlier. TKVA improved by €193 million to €487 million.

The results of the analysis of the performance indicators feed directly into portfolio management at ThyssenKrupp. This involves structural measures with a primarily strategic character. Specifically it involves selecting and growing businesses with which the targeted TKVA improvements are to be realized, and withdrawing in a timely and profitable way from activities which do not achieve adequate TKVA improvements. In addition, it involves developing new businesses by entering into promising new markets on favorable terms. In this way we create the basic requirements for the ability to pay dividends and for sustainable, profitable growth in our core businesses.

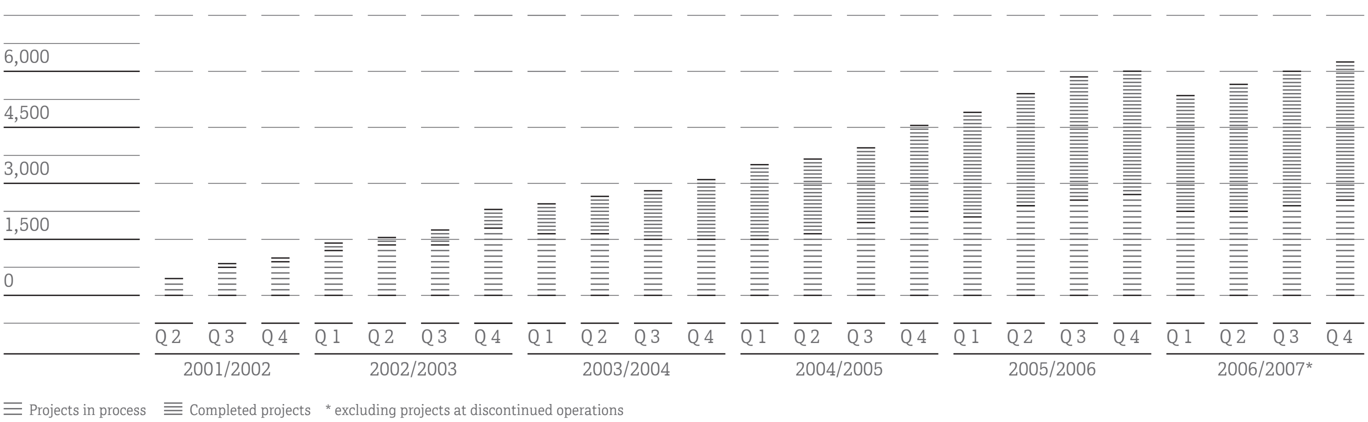
Value-based management is firmly established throughout the Group's worldwide operations.

A communication and training initiative was launched in spring 2006 to help further anchor value management in the Group. To date, some 3,000 decision-makers from all segments have attended training seminars. Most of them were held in Europe, but training has also been provided in China, the USA, Mexico, Brazil and South Korea. Tailoring the seminars to specific segments and target groups ensured a high level of relevance and practicability.

THYSSENKRUPP BEST

The goal of our value enhancement program ThyssenKrupp best is to improve the performance of the Group. For six years now, the program has been supporting the process of continuous improvement in the Group and providing the necessary guidance and tools. All employees can get involved, take part in projects and share their new-found knowledge. In the reporting year alone, 1,330 new projects were launched to make our Company even better.

THYSSENKRUPP BEST PROJECTS WORLDWIDE



* excluding projects at discontinued operations

Worldwide success

ThyssenKrupp best also involves intensive knowledge sharing within the Group.

At September 30, 2007, ThyssenKrupp best comprised 6,300 projects with over 60,000 concrete measures and individual steps. A further 1,500 projects have been removed from the program because the Group has disposed of the corresponding operations. Since the program was launched in 2001, 3,700 projects have been successfully completed. The focus is on operating efficiency, purchasing, sales/services and performance quality. Further projects promote knowledge transfer within the Group.

One of ThyssenKrupp best's objectives is for successful projects to be transferred to other segments and areas. In addition to the program's internet-based platform best plaza, numerous events are held to encourage knowledge sharing among Group companies. One such event is the “Best Practice Fair”, in which project teams present their experience and provide participants with ideas and impetus for new projects at their own companies.

ThyssenKrupp best is now firmly established worldwide. More than 50% of projects in 2006/2007 were based outside Germany, with teams working to enhance efficiency and value at more than 400 locations in 45 countries. Roughly 70% of the projects were conducted in Europe, mainly Germany, France, Italy, Spain and the United Kingdom. Almost 20% took place on the American continent – many project teams have been formed in the USA, Canada, Mexico, Brazil and Colombia. Value-enhancement projects were also launched in China, South Korea and other countries in the Asia/Pacific region, accounting for 6% of all best projects. The number of projects organized on a cross-country basis rose once again. In addition to increased involvement in Asia, African companies took part in ThyssenKrupp best for the first time.

In the reporting year, Executive Board members of ThyssenKrupp AG and the segment holding companies again visited projects and held discussions locally to keep abreast of progress and the successes achieved.

Sales & service initiative launched

Launched in March 2007, the aim of the sales & service initiative is to identify and exploit potential for improvement in sales and increase the share of services in the Group's sales. In addition to traditional areas of sales and services, this new initiative also addresses questions of sales processes and sales organization.

In the pilot phase, systematic examinations were carried out to identify potential starting points for improvement in the segments and at Group companies. Eight pilot projects were then launched to test various performance enhancement processes. Upon successful completion of these projects, so-called subject experts from all segments will secure the success of the initiative by supporting further projects in their areas, training project members in the use of tools and driving knowledge transfer in the Group. The program is rounded off by a training concept for employees in the separate project areas.

Award-winning projects in 2007

Project teams from the Steel, Stainless and Technologies segments were honored in the ThyssenKrupp best Awards 2007.

Every year, the ThyssenKrupp best Award honors the three best projects in the program as a reward for outstanding teamwork. Proposed projects from all areas of the Group were judged by a panel on the basis of set criteria such as financial or non-monetary results as well as complexity and methodology of project work. In 2007, first prize went to a company from the Stainless segment: a multi-site team developed and realized more than 1,300 measures to improve and sustainably secure product quality. A Brazilian team from the Technologies segment came second; they succeeded in significantly improving maintenance work for a crankshaft line. Third prize was awarded to a team from the Steel segment: through extensive cooperation both in-house and with customers, they identified new ways of improving the quality of molten steel.

Group review

ThyssenKrupp continued its profitable growth in fiscal year 2006/2007. We made good progress at both operating and strategic level and performed successfully in a favorable market environment. This is reflected in our performance indicators: sales rose by 10% to €51.7 billion, while earnings before taxes were up 27% to €3.3 billion.

GENERAL ECONOMIC CONDITIONS

The economic environment was generally friendly in the reporting year. The strong global growth of the previous year continued in 2007. According to current estimates, world GDP increased by 5.2%, slightly more than expected a year ago. Despite rising prices on the international energy and raw material markets, global growth remained robust. However, the US real estate crisis impacted the world economy towards the end of the period.

Economic growth in the USA slower

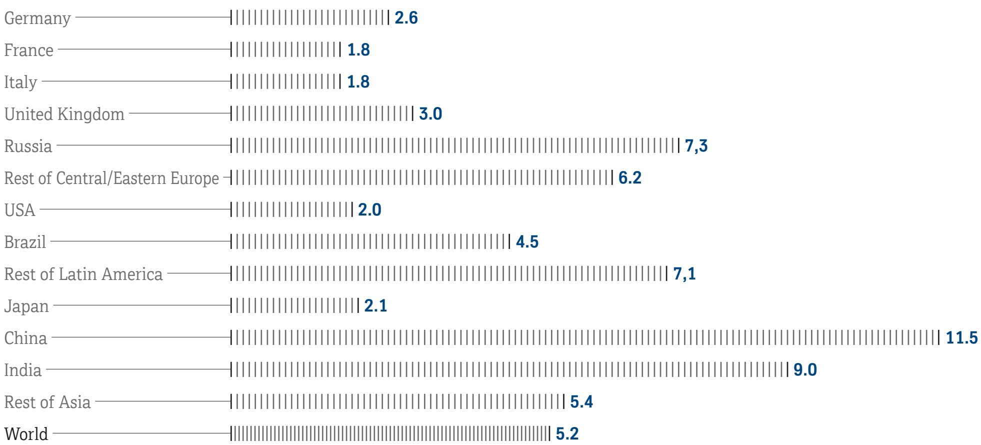
The upturn in Germany in 2007 was driven by strong exports and lively investment activity.

In the euro zone the positive economic trend continued in 2007. The 2.6% growth in GDP was in line with expectations. Particularly pleasing was the upswing in Germany which was driven mainly by exports but also by lively investment activity. The rise in the value of the euro has not significantly hampered export growth so far.

By contrast, the rate of expansion in the USA slowed. The weak housing market brought about by the mortgage crisis has had a noticeable impact on the economy. Japan remained on a moderate growth track thanks to sustained robust demand from abroad despite a temporary slowdown in investment.

The developing countries of Asia, Latin America and Central and Eastern Europe continued to report strong economic growth in 2007. The high rate of expansion in China and India was sustained. In Latin America, the Brazilian economy continued its recovery, aided mainly by strong domestic demand. Russia and the majority of the Central and Eastern European economies also achieved extremely strong growth rates.

GROSS DOMESTIC PRODUCT 2007* Real change versus previous year in %



* Estimate

ECONOMIC CONDITIONS IN THE SECTORS

The situation was generally encouraging in all important customer sectors. Demand for flat-rolled carbon steel remained at a relatively high level overall. Stainless steel was also in demand despite strong price fluctuations. Activity in the automotive, mechanical engineering and construction sectors picked up on the whole – with some regional differences. Our globally aligned segments were able to benefit from this trend.

Strong demand for carbon steel in Europe

Driven by the global economic boom, the trend on the international steel markets was mostly positive. World crude steel output is expected to increase by 6% to a new all-time high of 1.33 billion metric tons in 2007. China once again proved to be the biggest growth driver. With production growing by 18% to almost 500 million tons, China's share in world steel supply increased to 37%. As growth in domestic demand failed to keep pace, a significant share of surplus production was exported. Since steel imports also slowed, China reinforced its position as the biggest net exporter of steel.

Steel output in the NAFTA region was slightly lower than the year before, with high inventories dampening demand through to mid-year. The European Union reported moderate expansion overall. According to provisional estimates, crude steel production in Germany reached 48.6 million tons, up 3% from 2006. The mills had a virtually full workload up to mid-year; in the 2nd half output was reduced slightly in response to the fall in demand for seasonal and inventory-cycle reasons.

China is now the biggest third-country suppier in the EU steel market, but Russia and Brazil also increased their deliveries in 2007.

In our key European market, most steel-using industries strongly increased their output again in 2007. This secured high sales volumes and stable to rising prices for producers of carbon steel flat products. However, it also led to a further drastic increase in imports from third countries. Alongside China, now the biggest third-country supplier on the EU steel market, Russia, Turkey, India and Brazil also significantly stepped up their deliveries to the EU in 2007. This resulted in a supply surplus in some areas in the summer months and to temporary price pressure in southern Europe. Inventory surpluses at end consumers and above all distributors caused steel demand to settle at a slightly more moderate level. However, the general economic trend in the steel-using sectors remained robust.

The steel market in North America performed less favorably. In response to weaker demand and excessive inventories at steel users, steel suppliers reduced their output from the second half of 2006. Imports, too, remained lower than the year before. Prices slipped. However, towards the end of the 3rd quarter 2007 there were signs of stabilization, with demand for steel picking up again following the reduction of the inventory surpluses. The dynamic growth of the flat carbon steel market in Asia continued. However, the increase in new capacities – especially in China – accelerated the growth in exports. Measures introduced by the Chinese administration to slow steel exports have so far had no effect.

Strong fluctuations in the stainless market due to nickel prices

In the market for stainless steel flat products, demand from industrial end users in Europe remained high. However, the volume of orders dropped significantly. The reason for this initially was the strong increase in inventory levels at distributors and service centers that took place in the course of 2006 and 2007 in particular as a result of a sharp rise in imports. This led to a distinct drop in ordering activity which was further exacerbated by the nickel price situation.

From end 2005 to mid-2007 the nickel price increased by almost 350% to a new all-time high.

From the end of 2005 to May 2007, the price of nickel increased by almost 350% to an all-time high of over 50,000 US dollars per ton. As a result, the market price of nickel-bearing stainless steels – which account for around two thirds of the stainless market – almost trebled in this period, causing uncertainty among consumers. In response to the high prices, some customers began to replace chrome-nickel steels with less expensive low-nickel grades. In parallel with the nickel price development, a second factor came into play: third-country imports to Europe, mainly from Asia and in particular China, grew rapidly from the end of 2006. The reason for this was that new capacities built in China caused supply and demand to drift apart.

The reversal in the nickel price trend, which began in early June and saw the nickel price drop temporarily below 30,000 US dollars per ton by September 2007, prompted distributors to reduce the mainly import-related inventory surpluses as quickly as possible. This triggered a slump in prices and a further reduction in orders. As a result, most European producers significantly cut back production in particular in the 3rd quarter 2007.

The situation on the North American stainless market was similar – though less pronounced. Here, too, order intake was down from the previous year. In Asia, especially China, the market situation continued to be characterized by major overcapacity. The raw material price situation also had a negative impact on the ordering behavior of distributors.

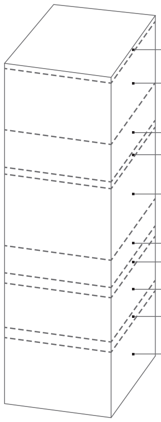
Growth in automobile production

The international auto industry continued to grow in 2007. According to estimates, world output increased by 4% to over 72 million cars and trucks. The main growth impetus again came from the emerging markets. China, now the world's third largest auto manufacturer, India and the countries of Central and Eastern Europe reported double-digit growth rates. One in five cars is now produced in one of these three growth regions.

By contrast, production in North America was 3% lower than the year before at 15.5 million vehicles. Sharply increased gasoline prices impacted sales of cars and light trucks. Vehicle output in Brazil rose by 6% in 2007 to 2.8 million units.

The auto market in Western Europe was in good shape, with output in 2007 up by 2% to more than 17.5 million vehicles. German automakers reported above-average growth of 4% to over 6 million vehicles. This is attributable to high exports of cars and continued strong demand for trucks. However, new car registrations were significantly lower, partly as a result of the VAT increase.

SALES BY CUSTOMER GROUP 2006/2007 in %



Machinery and equipment from Germany are in demand worldwide, ensuring high order levels for manufacturers.

Strong growth in engineering

The global mechanical engineering industry remained on growth track thanks to the robust world economy and increased capital spending. In particular in China, but also in many European countries, production of machinery and equipment increased.

German manufacturers in particular profited from high capital spending in numerous countries. As a result of strong domestic and foreign orders, production of machinery and equipment is expected to increase by 11% in 2007. The positive trend also continued in the German plant engineering sector.

German construction industry increases output

The growth in worldwide construction output continued to be driven by Asia and the countries of Central and Eastern Europe in 2007. In the USA a slight downturn was recorded as a result of the weaker housing market.

The upswing in the German construction industry continued in 2007. The main impetus came from commercial construction, thanks to continuing high investment. Overall production growth of 3.5% is expected in 2007.

THYSSENKRUPP WITH RECORD YEAR

THYSSENKRUPP IN FIGURES

		2005/2006	2006/2007
Order intake	million €	50,782	54,605
Sales	million €	47,125	51,723
EBITDA	million €	4,700	5,254
Earnings before taxes (EBT)	million €	2,623	3,330
Employees (Sept. 30)		187,586	191,350

ThyssenKrupp continued to operate successfully in fiscal 2006/2007. The key indicators above show that in a generally favorable economic environment we further improved our performance. Through organic growth, strategic acquisitions and an increased focus on services, we achieved record sales and earnings.

Strong growth in order intake, sales and earnings

Order intake and sales showed a greater improvement in 2006/2007 than we expected a year ago. Order intake climbed to €54.6 billion, 8% higher than a year earlier. All segments reported higher orders, with Technologies, Elevator and Services achieving the highest growth.

Group sales increased by 10% to €51.7 billion; all segments contributed to the growth.

Group sales rose by 10% to €51.7 billion. Higher prices for carbon and stainless steel products increased sales at Steel and Stainless. At Technologies sales were higher than the year before despite business disposals and the weak US dollar. Elevator likewise remained on growth track in both new installations and service activities. The Services segment profited from the continued strong performance of the materials markets. While sales at Technologies and Elevator were in line with expectations, Steel, Stainless and Services exceeded their targets.

SALES BY SEGMENT in million €

	2005/2006	2006/2007
Steel	12,087	13,209
Stainless	6,437	8,748
Technologies	11,366	11,523
Elevator	4,298	4,712
Services	14,204	16,711
Corporate	1,469	288
Segment sales	**49,861**	**55,191**
Inter-segment sales	(2,736)	(3,468)
Group sales	**47,125**	**51,723**

ThyssenKrupp achieved earnings before taxes of €3,330 million in the year under review - €707 million or 27% higher than the record income of the previous year.

Portfolio further optimized

ThyssenKrupp continued its portfolio optimization process in 2006/2007. Key measures included the streamlining of the Automotive activities, which were integrated into the Technologies segment at October 1, 2006. A central element of this was the sale of all our body and chassis operations in North America, which took place in the 1st quarter of the fiscal year. In addition, Technologies conducted several transactions to streamline its portfolio and expand its core business. Elevator strengthened its global market position with numerous smaller acquisitions. At Services, external growth focused on the foreign markets, in particular in the NAFTA region and Eastern Europe.

ThyssenKrupp also sold a portfolio of 25 commercial real estate assets, including office buildings and other commercially used properties, to a consortium of buyers. In connection with the planned move of ThyssenKrupp AG to the new Quarter in Essen, the real estate package also included the “Dreischeibenhaus” building in Düsseldorf, the current headquarters of ThyssenKrupp until the move to Essen.

Up to the end of the reporting year, we acquired companies with sales of €0.3 billion and disposed of companies with sales of €0.2 billion. Since the merger of Thyssen and Krupp we have therefore sold companies with sales of €9.1 billion and acquired others with sales of €8.2 billion.

Increased number of employees

Around 56% of the Group's workforce was based outside Germany at the end of September 2007.

On September 30, 2007, ThyssenKrupp had a total of 191,350 employees worldwide, 3,764 or 2% more than a year earlier. Overall the services-oriented segments Services and Elevator recorded the largest workforce increases. The number of employees in Germany rose slightly – by 1% - to 84,999. This means that 44% of employees were based in Germany. The number of employees outside Germany increased by just under 3% to 106,351. The expansion of our activities abroad more than offset the loss of employees in connection with the business disposals in North and South America. At the end of September 2007, 24% of employees worked in European countries outside Germany and 16% in the NAFTA region.

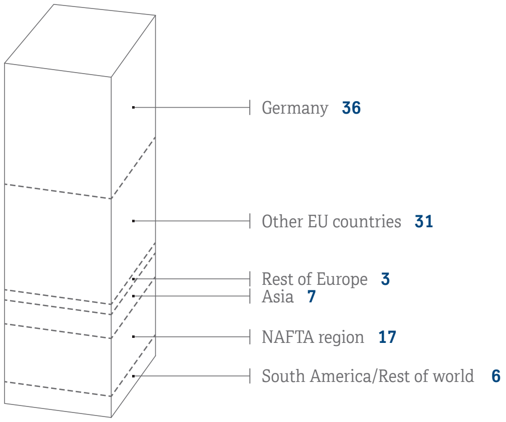
EXPECTATIONS EXCEEDED

Our business performance in 2006/2007 exceeded the expectations we had at the time of writing last year's annual report in mid-November 2006. Sales were 10% higher than our original €47 billion target. Sustainable earnings before taxes also exceeded our planned figure of €2.5 billion by a considerable 33%. Alongside the good steel market, successful product developments played a key role in this. International demand for our products and services was stronger than expected. Our Steel and Stainless segments delivered an excellent performance on the global markets; prices for stainless steel only began to fall late in the year and therefore did not impact earnings until the final quarter. Technologies significantly exceeded its income target. Elevator's earnings – before the EU fine – were steady, and Services was exceptionally strong in all business activities. Another reason for our higher-than-planned earnings was that numerous further measures unlocked unforeseen profitability reserves on the expense and income side and increased the value of the Company. As soon as we were able to identify these positive developments with sufficient certainty in the course of the year, we raised our targets accordingly and communicated our higher expectations in the interim reports.

KEY SALES MARKETS AND COMPETITIVE SITUATION

The EU region was the main market for products and services of ThyssenKrupp, accounting for 67% of sales, around half of these in Germany. 17% of our sales were generated with customers in the NAFTA region. Sales in Asia (including the Middle East) and South America still account for relatively low shares of 7% and 3% respectively. The chart below provides more details.

SALES BY REGION 2006/2007 in %



Many of our products occupy world leading positions on their markets thanks to their advanced technology, cost-efficiency and full product lifecycle support. In the past fiscal year we again put everything into maintaining and where possible expanding these market positions.

Marketing close to customers

We use the full range of sales tools for the international marketing of our products and services. As well as optimizing product design to meet the needs of specific countries and customers, we offer competitive prices, an efficient sales organization and individual advice to customers. Other measures employed to advertise our capabilities include product-related communications and advertising, international trade shows and presentations.

While complying with the Group's standard corporate design principles, the individual companies in the segments operate independently on the markets and so can respond swiftly and flexibly to market changes and customer requirements. Because we see it as a key feature of our marketing activities, we foster this closeness to customers through intensive communications, systematic quality improvements and an ongoing innovation process.

INCOME AND DIVIDEND

Record earnings of €3.3 billion

Earnings before taxes in 2006/2007 increased by 27% to a new record of €3.3 billion.

In fiscal 2006/2007 ThyssenKrupp achieved record earnings of €3,330 million. Compared with the previous year, pre-tax profit increased by €707 million or 27%. The biggest contribution to earnings came from the Steel segment. With a high level of shipments, cost-related steel price increases and efficiency improvements, the segment further improved its profits. Stainless almost doubled its income, mainly as a result of higher prices for stainless steel and high-performance materials. Technologies likewise achieved significantly higher profits, thanks in particular to an encouraging performance in mechanical components and industrial equipment. Due to the fine imposed by the EU Commission for alleged anticompetitive behavior at national level in the Benelux countries and Germany on the market for elevators and escalators, Elevator reported a loss. Excluding this effect, Elevator almost equaled its prior-year profit. Against the background of continued strong demand and a successful business expansion, Services returned a record profit.

EARNINGS BY SEGMENT in million €

	2005/2006	2006/2007
Steel	1,406	1,662
Stainless	423	777
Technologies	410	544
Elevator	391	(113)
Services	482	704
Corporate	(446)	(205)
Consolidation	(43)	(39)
Earnings before taxes (EBT)	2,623	**3,330**

While sales were 10% higher, the cost of sales rose by only 8%; as a result gross margin improved from 17% to 18%. Administrative and selling expenses increased more slowly than sales, rising by 4% in each case.

Other operating income decreased by €72 million. The main reason for this was that the prior-year figure contained the €153 million break fee from the terminated acquisition of Dofasco, while this year's figure only includes income from the sale of various real estate assets as part of the concentration of ThyssenKrupp's administrative sites in Germany in the amount of €119 million. In addition, income from insurance recoveries decreased by €18 million. Of the €490 million increase in other operating expense, €480 million was due to the antitrust fine imposed by the EU on ThyssenKrupp Elevator.

Despite the rise in interest rates on the markets relevant to us and an increase in funds employed during the fiscal year, net interest expense improved by €23 million. This is mainly because most of the Group's gross debt is subject to fixed interest rates, the repayment of old credits bearing relatively high interest was recognized in income, and the income effect of lower cash deposits compared with the previous year was largely eliminated by rising interest rates.

Compared with the previous year, income tax expenses increased by €221 million to €1,140 million. The tax rate changed only slightly from 35% to 34%. This is partly due to the fact that the tax-reducing effects of the corporate tax reform in Germany were largely offset by the non-deductibility of the EU fine.

Net income amounted to €2,190 million, compared with €1,704 million in the prior year. This represents an increase of around 28%.

Earnings per share improved from €3.24 to €4.30.

Minority interest in net income increased to €88 million from €61 million a year earlier. This was due to the improved earnings situation at companies with non-Group minority interests. After deducting minority interest, earnings per share rose from €3.24 in the prior year to €4.30 in the reporting year. Throughout the year under review the number of shares outstanding was 488,764,592. In the previous year the weighted average number of shares outstanding was 507,731,743. This included both the increase from the sale of treasury stock in November 2005 and the decrease from the repurchase of treasury stock in July and August 2006.

Income of ThyssenKrupp AG

The net income of ThyssenKrupp AG in the reporting year according to HGB (German GAAP) amounted to €309 million, compared with €1,118 million the year before.

Income from investments decreased by €465 million to €666 million. Income from profit transfer agreements matched the prior-year level. The Steel segment made a particularly significant contribution to earnings on account of its extremely positive performance. However, the increased loss transfer as a result of the fine imposed by the EU Commission on ThyssenKrupp Elevator reduced earnings. Lower profit distributions by the German subsidiaries was a key factor in the reduction of income from investments.

The rise in other operating income resulted in the amount of €257 million from higher intercompany tax allocations in connection with the transfer of income from subsidiaries; on top of this came the sale of the headquarters building in Düsseldorf.

Administrative costs showed no significant change from the previous year, while an allocation to the special item with reserve elements posted under other expenses was €70 million higher than the year before.

The €207 million increase in interest expense reflects payments into the additional paid-in capital of affiliated companies and interest rate changes on the money and capital markets.

After these effects, income from ordinary activities amounts to €695 million, compared with €1,179 million the year before.

In the previous year, extraordinary income mainly included the break fee of €153 million from the terminated takeover of Dofasco. In 2006/2007 no extraordinary items were reported.

Income tax expense amounted to €386 million and is influenced by corporate and trade tax for 2006/2007. The trade tax loss carryforward still existing from the previous year and increased tax refunds for previous years are included in this figure.

After income tax, net income amounted to €309 million. Taking into account transfers from retained earnings totaling €334 million and the income carried forward from the previous year of €26 million, unappropriated net income is €669 million. Subject to the approval of the Annual General Meeting, this amount is to be used to distribute a dividend of €635 million. The balance of €34 million is to be carried forward.

€1.30 dividend per share

The unappropriated net income of ThyssenKrupp AG amounted to €669 million; of this, €635 million is to be distributed as a dividend.

The legal basis for the dividend payment is the HGB unappropriated net income of ThyssenKrupp AG in the amount of €669 million (prior year €548 million). It comprises the HGB net income of ThyssenKrupp AG in the amount of €309 million (prior year €1,118 million) plus the €334 million taken from retained earnings (prior year: €570 million transferred to retained earnings) and the income carried forward from the previous year of €26 million.

The Executive Board and Supervisory Board will propose to the Annual General Meeting the payment of a dividend of €1.30 per share (prior year €1.00 per share) and the carryforward of the balance of €34 million. Should the number of shares eligible for dividend distribution change before the date of the Annual General Meeting, the proposed dividend distribution will be adjusted accordingly. Therefore, of the €669 million unappropriated net income, a total of €635 million is to be used to pay a dividend on the 488,764,592 shares eligible for dividend payment as of September 30, 2007.

The financial statements of ThyssenKrupp AG are presented in abbreviated form in the following table:

BALANCE SHEET OF THYSSENKRUPP AG (HGB) in million €

	Sept. 30, 2006	Sept. 30, 2007
Intangible assets	29	50
Property, plant and equipment	149	103
Financial assets	11,120	16,453
Fixed assets	11,298	16,606
Receivables from non-consolidated subsidiaries	6,943	9,625
Other receivables and other assets	103	312
Securities	684	698
Cash and cash equivalents	3,377	2,481
Operating assets	11,107	13,116
Assets	22,405	29,722
Stockholders' equity	6,355	6,175
Special item with reserve elements	58	91
Accrued liabilities	436	526
Bonds	1,500	1,500
Liabilities to financial institutions	502	298
Liabilities to non-consolidated subsidiaries	13,261	20,853
Other liabilities	293	279
Liabilities	15,556	22,930
Stockholders' equity and liabilities	22,405	29,722

STATEMENTS OF INCOME OF THYSSENKRUPP AG (HGB) in million €

	Sept. 30, 2006	Sept. 30, 2007
Income from investments	1,131	666
Other operating income	649	1,006
Other expenses and income	(439)	(608)
Net interest income/expense	(162)	(369)
Income from ordinary activities	1,179	695
Extraordinary income/loss	113	0
Income taxes	(174)	(386)
Net income	1,118	309
Transfer from retained earnings	0	334
Allocation to retained earnings	(570)	0
Carryforward	0	26
Unappropriated net income	548	669

CAPITAL EXPENDITURES

In 2006/2007 ThyssenKrupp increased its capital expenditures by 44% to €3,001 million. €2,873 million was spent on property, plant and equipment and intangible assets, while the remaining €128 million was used for acquisitions. Capital expenditure was €1,646 million higher than depreciation (€1,355 million).

INVESTMENT BY SEGMENT in million €

	2005/2006	2006/2007
Steel	603	1,659
Stainless	230	328
Technologies	600	581
Elevator	164	122
Services	393	282
Corporate	88	131
Consolidation	(1)	(102)
Group	2,077	3,001

The investments support our strategic target of sustainable and profitable growth. Around two thirds of the funds went into the expansion of our production capacities worldwide. Worthy of special mention in this context are the investments made in 2006/2007 in the construction of the new steel mill in Brazil. In addition, all segments invested substantial amounts in the modernization of existing facilities and plants.

Further information can be found in the notes to the consolidated statement of cash flows in the section “Financial position” on page 94.

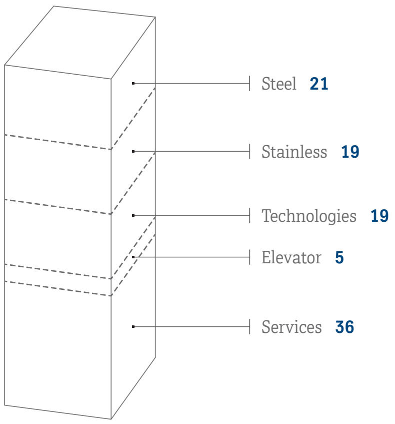
PROCUREMENT: RAW MATERIAL PRICES TRENDING UPWARD

At €33.0 billion, materials expense amounted to 64% of sales in the reporting period. Compared with the year before, we spent 11% more on raw materials, other products and services. The rise is attributable to higher raw material prices and increasing expenses for outsourced products. Although markets were tight in part, material supplies were secured at all times.

MATERIALS EXPENSE BY SEGMENT in million €

	2005/2006	2006/2007
Steel	7,066	7,650
Stainless	4,909	6,783
Technologies	6,966	7,024
Elevator	1,406	1,577
Services	11,123	13,223
Corporate	909	186
Materials expense of segments	32,379	36,443
Consolidation	(2,701)	(3,447)
Group	29,678	32,996

MATERIALS EXPENSE 2006/2007 in %



Brazil – main supplier of iron ore

Demand for iron ore increased further on the world market, with prices also rising.

The situation on the global iron ore market tightened further in 2007 on account of the strong growth in steel production. Demand for seaborne iron ore increased by 10% to around 800 million metric tons, so that despite a number of expansion projects, ore suppliers had difficulty keeping up with demand. Furthermore, some of the planned expansion projects were delayed because plant and equipment suppliers had full workloads and were therefore unable to deliver. Against this background, fine ores were 9.5% more expensive. The price of pellets of the leading Brazilian grade increased by 5.3%. In addition, ocean shipping rates for ore shipments increased.

In the reporting period the Steel segment purchased 16.1 million tons of iron ore, of which almost 10 million tons in Brazil. In second place was Canada (2.6 million tons) followed by Australia (just under 1 million tons). Smaller volumes were purchased in Africa and Sweden.

While iron ore prices increased, coking coal became less expensive thanks to the improved supply situation. We were able to achieve a price reduction of around 16% for high-quality grades on the international market. For PCI coal, however, no price reductions were available – mainly due to the strong demand for coal for power plants. The sharp increase in ocean shipping rates also impacted our input costs for coal.

Internationally traded blast furnace coke has increased in price significantly since the end of 2006. At the end of the fiscal year, the price of Chinese blast furnace coke was 325 US dollars before adding the freight costs to Germany. However, in addition to the high demand, the Chinese export tax on coke and other fuels caused prices to rise.

Sharp price increases for alloying metals

On the procurement markets for alloys and above all for metals, prices fluctuated sharply. Producers increased their prices in some cases by over 50%, claiming continued high demand in Europe and Asia as their reason. This was particularly true of bulk alloys such as ferromanganese. Anti-dumping measures by the EU Commission – e.g. for ferrosilicon – drove prices even higher.

Exchange-listed metals such as zinc, tin and copper and in particular nickel, which is important in stainless production, were likewise subject to large price fluctuations. After the price of nickel had already increased by over 350% in the previous three years to around 30,000 US dollars per ton at the beginning of the fiscal year, in the further course of the year the price for delivery in three months climbed to 51,000 US dollars in mid-May 2007. It then fell within a few weeks to below 28,000 US dollars. From mid-August the price began to rise again and from mid-September was slightly above 30,000 US dollars. The surcharge for immediate delivery was at times up to almost 4,000 US dollars per ton.

Price jumps were also observed for the alloying metal chromium, which is also important for the production of stainless steel. After falling slightly in the 2nd quarter of the reporting year, the price increased significantly in the 3rd quarter to reach an all-time high of 2,200 US dollars per ton in the 4th quarter. A key reason for this was high demand from China. By contrast, prices for ferromolybdenum remained relatively stable within a range of 73 to 77 US dollars per kilogram, following previous years in which the price of this alloying metal had also increased by around 400% to over 90 US dollars per kilogram.

The strong worldwide steel market made scrap a sought-after raw material. On average, the price of grade 2 unalloyed scrap was 17% higher than the year before in Germany. Prices fluctuated between €222 and €253 per ton. While rising nickel prices pushed up the price of alloyed scrap, they were also responsible for significantly improving the availability of scrap. This price trend was subsequently broken when world production of nickel-bearing stainless steels was reduced – alloyed scrap is only used for these steels. When nickel prices fell from June 2007, the scrap price also decreased.

Early planning helped avoid further price increases for supplies.

The market for supplies and spare parts was characterized by high workloads at suppliers. Only through early planning were we able to prevent further price increases and supply bottlenecks. In the services sector, too, prices were largely stable. On the construction market we even succeeded in averting price increases despite higher material costs.

Capacity utilization was just as high for suppliers of castings and forgings as for businesses supplying, for example, power plant construction companies. These include manufacturers of turbines, pumps, boilers and high-pressure equipment as well as powertrain and transmission producers. In some cases these product groups were subject to significant price increases and long delivery periods.

The purchasing initiative under our value-enhancement program ThyssenKrupp best was successfully continued in the reporting year. Over 500 employees from Europe, North America, Brazil and Asia have now been trained to use the methodology and tools made available by the Group's headquarters. More information on the projects and significant cost savings achieved as a result of the program can be found on page 59–60.

Tender volume quintupled

We strongly expanded the ThyssenKrupp procurement platform to support global purchasing in the year under review. The strategic sourcing module accessible via the internet facilitated worldwide requests for quotes and auctions. Online requests for quotes have already been successfully used by Group subsidiaries in Germany, Liechtenstein, France, Italy, the United Kingdom and the USA. The total tender volume quintupled against the previous year, reaching €2.5 billion.

Our second program module – Catalog Ordering – also further established itself internationally. More than 3.3 million items can now be purchased online. This significantly reduces the costs of purchasing transactions for both us and our suppliers.

We also expanded our global strategic supplier management system. More than 70 Group subsidiaries in Europe, the NAFTA region and Asia assessed over 1,000 suppliers on the basis of standardized methods and criteria. The assessments were made jointly by all departments and employees working with the suppliers. All suppliers and their assessments are fed into a supplier database which can be accessed online by our Group subsidiaries.

Higher freight costs

Freight costs are a major factor for international purchasing. Limited ocean shipping capacities pushed prices up considerably. Furthermore, the booming market for freight to the USA and limited handling capacities of the busier ports are slowing shipping times. In the area of air freight, we achieved price reductions by consolidating orders under framework agreements. However, road and rail freight rates increased.

The central fleet management system proved its worth internationally, reducing procurement costs in Germany, France, Switzerland, Austria and Liechtenstein. In addition, by consolidating volumes we also ordered vehicles in Italy via the European agreements with auto manufacturers and leasing companies. As a result we achieved significantly better conditions. We also utilized synergy potential for vehicle discounts and lease conditions in Hungary, Romania and Sweden. In the future a centralized vehicle damage management system will enhance cost transparency and simplify handling in the event of damage to vehicles.

Energy: oil price reached all-time high

Oil and gas prices increased significantly in the course of the reporting year.

The price of oil was very erratic in 2006/2007. Due to the mild winter it initially fell temporarily to an unusually low level. However, over the course of time the price of crude oil reached an all-time high of over 80 US dollars per barrel. As a result, the price of natural gas also increased.

At the beginning of the reporting year, the gas suppliers terminated the existing agreements and at the same time introduced a universal increase in the base price, claiming higher production prices in the Netherlands, Norway and Russia. The separation of gas companies into sales and transmission units now called for by the German Energy Industry Act has not yet led to lower costs for customers of the natural gas transmission grid.

Increasing electricity costs

Electricity costs climbed further even though we staggered our purchases and exploited favorable phases in the market. Our existing long-term supply agreements could not prevent this situation. A key cost-driving factor was the further increase in surcharges to subsidize renewable energies. In addition, the electricity tax and the subsidization of combined heat and power plants contributed to the rising cost of electricity. Only a few major electricity consumers in the Group benefited from the special rules for energy-intensive enterprises.

ENVIRONMENTAL PROTECTION

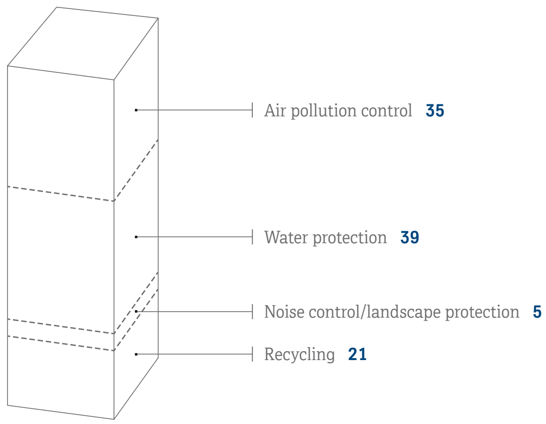
Environmental protection: responsibility for climate and resources

Climate protection, sustainability and resource conservation are central to ThyssenKrupp's sense of responsibility for the environment. The Group spent €520 million on operating pollution control equipment in the reporting year. In addition, the segments took numerous measures to reduce their consumption of energy and raw materials and to contribute to climate protection in their own and at their customers' plants. As raw material and energy prices are high, these measures also helped reduce costs.

ONGOING EXPENDITURE ON ENVIRONMENTAL PROTECTION IN million €

	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007
Air pollution control	101	124	141	141	183
Water protection	161	177	165	168	204
Noise control/landscape protection	13	12	15	16	24
Recycling	60	64	81	87	109
Total	335	377	402	412	520

ONGOING EXPENDITURE ON ENVIRONMENTAL PROTECTION 2006/2007 in %



Former waste materials from steel production are today coveted products, used for example as construction materials.

The Steel segment developed the unique OxyCup® process which allows pig iron to be recovered from previously unrecyclable iron-containing steel mill waste. This protects raw material resources and saves costs. In extensive research work, the engineers also developed to market maturity a process for producing high-quality building material from shaft furnace slag. Instead of being taken to landfill sites, practically all former waste materials can now be recycled into key products for new customers. With this resource-saving waste disposal concept, steel is an environmentally friendly material right from production.

We prepared the permit applications for the construction of our new production complex in the USA in the record time of just six months and submitted them to the Alabama environmental authorities in good time. After intensive contacts, the main permits had already been granted by fall 2007. The positive response of the local population additionally accelerated the approval process. Four events held to inform the public about the project were attended by over 1,750 interested residents, potential service providers and future employees.

We also use our extensive expertise and innovative products to support our customers in environmental protection. Examples include the modern coking plants from Technologies which are in service throughout the world and reduce otherwise inevitable dust and gas emissions. These modern and environmentally friendly facilities are in demand in particular in China, South Korea and Taiwan. The use of large-capacity coke ovens reduces space requirements and operating costs. With the new PROven® system, the usual emission of pollutants from the oven closures and during the oven charging process is avoided. The modern CSQ (Coke Stabilization Quenching) process with an integrated two-stage particle separator is used for coke cooling. A combination of various processes developed by us also guarantees optimum desulfurization of the coke oven gas and the recovery of high-purity sulfur.

Used as facade elements in steel construction, new solar thermal collectors from the Steel segment also supply environmentally friendly energy. We developed the new solar power system together with various European partners as part of the Solabs® project. Attached to the exterior facade, the solar thermal collectors produce energy without taking up extra space.

Our EnviNOx technology converts harmful greenhouse gases into the natural components of air.

Developed by scientists and engineers at Technologies to reduce greenhouse gas emissions, the EnviNOx® process is meeting with increasing interest worldwide. Ten facilities have now been fitted with this technology or are under construction worldwide. The process uses a catalyst to convert ecologically damaging laughing gas and other nitrous oxides occurring in the production of nitric acid into the natural components of air – nitrogen, oxygen and water. These ten facilities alone will provide a reduction in greenhouse gas emissions equivalent to reducing CO_2 emissions by 7.5 million tons per year. This is roughly the amount of carbon dioxide produced each year by 2 million cars with an average mileage of 20,000 km.

SUMMARIZED ASSESSMENT OF THE FISCAL YEAR

The past fiscal year was the most successful in the history of our Group. ThyssenKrupp delivered another outstanding performance, with all key performance indicators at a new record high. All five segments improved their global market positions, in part significantly, and expanded their business. The basis for this is the wide range of products and services which have three things in common – they offer high quality and advanced technology and are tailored to customers' requirements. Our internal programs to enhance performance, productivity and efficiency also bore fruit, especially the Groupwide value enhancement program ThyssenKrupp best.

ThyssenKrupp is a focused conglomerate supported by three pillars: Steel, Capital Goods and Services. These three business areas, to which the Group's five segments are allocated, are the basis of our business model; they also stand for the past and future success of our Company.

Segment review

As well as manufacturing products, our five segments Steel, Stainless, Technologies, Elevator and Services are increasingly concentrating on system solutions and innovative services. All segments took advantage of the strong world economy to achieve further growth.

STEEL

STEEL IN FIGURES

		2005/2006	2006/2007
Order intake	million €	12,343	12,718
Sales	million €	12,087	13,209
Steelmaking	million €	1,004	1,403
Industry	million €	5,846	6,390
Auto	million €	4,375	4,800
Processing	million €	2,433	2,695
Consolidation	million €	(1,571)	(2,079)
Earnings before taxes (EBT)	million €	1,406	1,662
Employees (September 30)		38,840	39,559

Our Steel segment provides high-quality carbon steel flat products along with processing and services to customers throughout the world.

Earnings almost doubled

The Steel segment is focused on the highly attractive market for high-end carbon steel flat products. Its capabilities include intelligent material solutions, custom processing and comprehensive service.

Steel remained on growth track in fiscal 2006/2007 and continued to perform very successfully. Demand for premium flat-rolled carbon steel was extremely strong; in some cases we were unable to meet it in full due to capacity limitations. Order intake increased by 3% to €12.7 billion for price reasons. Order volumes slipped in the final quarter for seasonal and inventory-cycle reasons. Overall, order volume decreased by 6%.

Crude steel production increased by 4% to 14.5 million metric tons. Production by our investee company Hüttenwerke Krupp Mannesmann rose by 20%; this strong growth versus the previous fiscal year was mainly due to last year's production outages. At our own steelmaking facilities we succeeded in expanding production slightly, despite a major repair to blast furnace Schwelgern 1, by means of numerous optimization measures. To ensure maximum utilization of hot-rolled capacities we continued to buy in slab. Rolled-steel production for customers increased by 4% to 15.8 million metric tons. All major production units were fully utilized.

Sales of the Steel segment again increased strongly by 9% to €13.2 billion. This was mainly due to the price increases achieved in quarterly and contract deals and to a superior product mix. Shipments reached 14.1 million metric tons, exceeding the prior-year level by 1%.

With a profit of €1,662 million we again achieved record results. They include impairment losses of €76 million relating to the newly included Metal Forming business. Excluding these nonrecurring effects, earnings before taxes were €1,738 million. With shipments at a high level we succeeded in passing on increased raw material and energy costs to the market. In addition, there were positive earnings effects from the implementation of action programs to increase efficiency in all business units.

Steelmaking

The Steelmaking business unit combines the metallurgical operations in Duisburg, the logistics activities, and the segment's strategic projects. Its main role is to supply the three market-facing business units Industry, Auto and Processing with low-cost, high-quality starting material. Sales of pig iron, slabs and energy to external customers were higher than a year earlier as the increased costs were passed on. Sales revenues at the transport companies were virtually unchanged.

Steelmaking recorded a loss following a profit in the previous year. The main reasons were the start-up costs of the newbuild projects in Brazil and the USA.

Industry

Sales and earnings in 2006/2007 increased substantially in the segment's Industry business unit.

The Industry business unit is a partner to many steel-using sectors which enjoyed very good activity levels in the reporting year. Sales were up 9% from the prior year. Higher prices were achieved in all quarterly and long-term contracts. Sales volume, however, was slightly down from the prior year. Profit increased substantially, driven mainly by the profit centers of the Industry Division of ThyssenKrupp Steel. Key factors were higher prices and efficiency improvement measures, which outweighed the negative effects of cost increases for starting materials and a slight fall in shipments.

Our European steel service centers recorded above-average sales growth due to volume and price factors. The main causes were improved starting material supplies, productivity increases and the passing on in full of higher input prices. Earnings almost doubled in a good operating environment.

For the most part the construction elements business was able to pass on higher starting material prices thanks to improved building activity in Europe and especially in Germany. Sales volumes were unchanged from the prior year. Despite this there was a drop in profits due to impairment losses.

Auto

Sales revenues of the Auto business unit increased by 10%, thanks in particular to the positive performance of the Auto Division at ThyssenKrupp Steel. Sales volumes expanded despite tight capacities. Cost increases on the procurement side were countered by price increases in contract deals and measures to improve performance. Earnings were up from the prior year.

At Tailored Blanks, sales and earnings rose significantly due to increased shipments and the ramp-up of the production sites in China and Sweden.

By contrast, the North American steel service centers recorded large volume losses and lower profits as a result of reduced orders from the auto industry. Positive price effects were unable to offset this. The profit decline is also due to asset impairment charges and the lower US dollar compared with the euro.

Metal Forming, formerly managed by Automotive, has been part of the Steel segment since October 2006.

The Metal Forming business, integrated in Steel at the beginning of fiscal 2006/2007, increased its sales of body and chassis components for the auto industry in the reporting year. Tooling sales were lower, but component sales in Europe were higher. In addition, the acquisition of chassis operations in China and Brazil last year and this year had a positive impact. Metal Forming reported a high loss, mainly due to the impairment charges taken in the reporting year. Operating earnings were also negative as a result of start-up costs for new products and sites. The restructuring measures implemented were unable to offset the higher costs.

Processing

The Processing business unit comprises the tinplate, medium-wide strip and grain-oriented electrical steel product groups. A sales increase of 11% was accompanied by a big leap in profits.

We gained further market share on the tinplate market, which particularly in Europe is characterized by overcapacities and stagnating demand. In a slightly weakening market profits were down from the prior year.

Assisted by very high demand for medium-wide strip, Hoesch Hohenlimburg achieved record levels of production and shipments. With prices also higher, profits increased significantly. Earnings were impacted by higher starting material costs, which could not be offset by productivity increases.

Sales of grain-oriented electrical steel increased. Higher shipments to third-country markets offset lower sales volumes in Europe. Profits rose considerably thanks to the good price situation and the increased share of higher-value electrical steel grades in the product mix.

Significant events

The Umformtechnik group, managed until the end of fiscal 2005/2006 by the then ThyssenKrupp Automotive AG, was integrated into the Steel segment as the new Metal Forming business with effect from October 01, 2006. Its main operations are in Europe and we are currently in the process of establishing further operations overseas. A chassis production facility in Brazil was acquired in 2006/2007. Another new plant in Turkey making body parts for cars and delivery vehicles began operation in August 2007. The integration of Metal Forming into the Steel segment offers major potential for expanding our technological capabilities along the process chain from material to finished part.

In the Steel Service Europe business important decisions to expand operations were made. In Germany, a new service center is to be built in Krefeld, where the plan is to combine the production of the three existing centers in Bochum, Breyell and Leverkusen. Our goal is to achieve a significant improvement in quality and cost standards while at the same time expanding our processing capacity. A new service center began operation in Poland in 2006/2007, taking us a step further in our internationalization efforts and creating the ability to support the growth of customers in Eastern Europe.

The ThyssenKrupp Tailored Blanks group has built a new plant in Bursa in western Turkey. Production started in September 2007. The company thus became the country's first producer of laser-welded tailored blanks for the fast-growing Turkish auto industry.

In the Construction Elements business, the Hof and Leipzig sites in Germany were closed; in the future production will be concentrated at the plants in Kreuztal-Eichen/Siegerland and Oldenburg/Holstein. We are building a new site in Hungary. New sales bases were also created in Russia and the UK. In addition, the ownership structure at the companies Isocab N.V. (Belgium), Isocab France S.A.(France) and Decapanel S.A.S (France) was cleaned up effective October 01, 2007 by the acquisition of remaining shares.

Capital expenditures

The capital expenditures of the Steel segment reached €1,659 million in the reporting year, with depreciation at €615 million.

51% of Steel's investment was in the new steel mill in Brazil; the majority of orders have already been placed.

The ThyssenKrupp CSA steel mill project in Brazil, which is having a major impact on cash flows from investing activities, is running to schedule. The majority of the contracts have been awarded and ground preparation and foundation work has been carried out on the site. This project in the state of Rio de Janeiro accounted for 51% of total capital expenditures. The second major strategic project – the construction of a steel mill in Alabama – had no effect on cash flows from investing activities in 2006/2007 as only preparatory measures for the start of construction took place.

At ThyssenKrupp Steel AG, investment focused further on modernizing the ironmaking facilities in Duisburg. The main item was the construction of the new blast furnace 8, which is to be blown-in in December 2007. Further investment funds went towards rebuilding electrolytic coating line 2 in Duisburg-Beeckerwerth. We also pushed ahead with expanding the hot-rolled lines and hot-dip coating facilities.

ThyssenKrupp Electrical Steel invested substantial funds in capacity expansions. In Isbergues, France, a decommissioned stress relieving furnace was put back into service; the Gelsenkirchen plant expanded its existing decarburizing capacities. These measures further increased productivity and the production of higher-value electrical steel grades.

STAINLESS

STAINLESS IN FIGURES

		2005/2006	2006/2007
Order intake	million €	7,292	7,684
Sales	million €	6,437	8,748
ThyssenKrupp Nirosta	million €	2,682	3,839
ThyssenKrupp Acciai Speciali Terni	million €	2,505	3,244
ThyssenKrupp Mexinox	million €	559	707
Shanghai Krupp Stainless	million €	364	454
ThyssenKrupp Stainless International	million €	1,186	1,570
ThyssenKrupp VDM	million €	998	1,463
Corporate/Consolidation	million €	(1,857)	(2,529)
Earnings before taxes (EBT)	million €	423	777
Employees (September 30)		12,197	12,182

Earnings almost doubled

The Stainless segment combines our activities in the areas of stainless steel flat products and the high-performance materials nickel alloys and titanium. With high delivery performance, flexibility and extensive services, Stainless supports its customers in the manufacture of high-quality end products.

The value of new orders reached €7.7 billion, up 5% from the prior year. However the volume of orders was significantly lower, mainly due to nickel price developments and higher imports. The high customer demand experienced since early 2006 pushed up base prices further at the beginning of the reporting year. Nickel prices also rose sharply, driving up alloy surcharges. Asian and particularly Chinese overcapacity, in conjunction with the relatively attractive price level in Europe compared with Asia, resulted in increasing imports to Europe, which particularly affected the Italian stainless market. European distributors and independent service centers took advantage of this situation to fill their inventories. As a result replenishment orders by distributors decreased to the minimum necessary levels. The nickel price began to fall sharply in early June 2007, causing distributors to sell their high inventories as quickly as possible to minimize the risk of impairment. This considerably reduced the volume of orders in the second fiscal half.

Stainless increased its sales by 36% to €8.7 billion despite falling order volumes.

Despite the significant drop in order volumes, sales in the Stainless segment increased by 36% to €8.7 billion. With hot-rolled and cold-rolled volumes in decline this was mainly due to the enormous increase in alloy surcharges – especially for nickel – and a higher base price level. The nickel alloys business benefited not only from the nickel price rise but also from strong demand so far in the plant engineering, oil and gas sectors. However, here too orders weakened in the course of the year as a result of the high nickel price.

Stainless recorded a substantial increase in earnings before taxes to €777 million, the highest profit in the segment's history. In the prior year the figure was €423 million. The increase was due to significantly higher base price levels, the positive impact of nickel prices up to mid-2007, and the successful implementation of programs to increase efficiency at the operating companies. The drastic decline in the nickel price from June 2007 had a marked negative impact on order intake and utilization of our worldwide production capacities. In addition, the huge drop in nickel prices made it necessary to record significant inventory write-downs in the 4th fiscal quarter.

ThyssenKrupp Nirosta

At ThyssenKrupp Nirosta, improved prices and efficiency programs resulted in higher profits.

The ThyssenKrupp Nirosta business unit recorded fewer new orders in the reporting year but significantly increased its sales due to higher prices. Thanks to the improved price level and the effects of internal programs we raised our profits substantially. Increased costs caused by measures to maintain deliveries and reduce losses as a result of the fire at the Krefeld plant were offset by insurance recoveries. The production units affected by the fire went back into operation in the course of the year and the production support provided by our Chinese business unit Shanghai Krupp Stainless was ended.

ThyssenKrupp Acciai Speciali Terni

ThyssenKrupp Acciai Speciali Terni recorded high sales growth and a decline in order intake. Driven by higher base prices and the effects of action programs, profits increased significantly, even though earnings were impacted by restructuring costs at the Terni steel plant and in connection with the relocation of production from Turin to Terni. Both the titanium and forging operations made noteworthy earnings contributions.

ThyssenKrupp Mexinox

At ThyssenKrupp Mexinox, order volumes on the North American market decreased slightly, while sales increased. In a generally stable NAFTA market the company recorded significantly higher earnings despite slightly lower shipments.

Shanghai Krupp Stainless

In the first half of the fiscal year Shanghai Krupp Stainless continued to benefit from the production support provided to ThyssenKrupp Nirosta to limit the fire-related losses at the Krefeld plant. Sales were up significantly from the prior year, while new orders from China declined. Following a loss in the prior year Shanghai Krupp Stainless generated a profit. In a continuing difficult market environment the improved earnings are the result of increased export activities and contract work for ThyssenKrupp Nirosta. In addition, cost advantages resulted from the start-up of the hot-rolled annealing and pickling line.

ThyssenKrupp Stainless International

Order intake at ThyssenKrupp Stainless International decreased in volume in the past fiscal year but increased in value along with sales. The business unit benefited from increased service center business and almost equaled its prior-year earnings.

ThyssenKrupp VDM

ThyssenKrupp VDM recorded higher order intake and, due to prices, increased sales, although the volume of new orders was below expectations due to customers holding back on orders in view of the high nickel price. Profits were up significantly from the prior year thanks to the continuing positive state of the market in the oil, gas and chemical plant sectors and the measures carried out to reduce costs.

Significant events

At the beginning of June 2007 ThyssenKrupp Acciai Speciali Terni announced that in order to strengthen competitiveness it would be closing the Turin plant and relocating production capacities step by step from Turin to Terni. This process is to be completed by the end of fiscal 2007/2008.

Capital expenditures

Stainless invested a total of €327 million in property, plant and equipment and intangible assets in 2006/2007, with depreciation amounting to €152 million. At ThyssenKrupp Nirosta the units destroyed by the fire in June 2006 were rebuilt and were able to begin production sooner than planned. At the company's Krefeld plant a start was made on modernizing the AOD converter to optimize melt shop production. To meet growing demand in the attractive "white goods" segment the processing capacity of the EBOR service center in Sachsenheim is being expanded further. At ThyssenKrupp Nirosta Präzisionsband the focus was on expanding annealing capacity.

Stainless is investing heavily to expand its hot- and cold-rolled capacities.

At ThyssenKrupp Acciai Speciali Terni the restructuring measures are continuing. Some projects were initiated in 2006/2007 but will not be completed in some cases until 2007/2008. A major part of the measures involves relocating production from the Turin plant to Terni and subsequently closing the Turin plant, which suffers major disadvantages in terms of logistics, energy costs, infrastructure and environmental requirements. Significant investment is being made to expand hot-rolled and cold-rolled capacity and widen the product portfolio. When the restructuring and expansion measures are complete the Terni plant will be a world-class integrated stainless mill. A VOD converter is currently under construction in the Terni melt shop which will start operation in early 2008. This unit will enable us to produce materials which cannot be manufactured by conventional technology – for example ferritics with high chromium and low carbon contents which can substitute expensive chromium-nickel steels in many areas. This VOD converter will also make it possible to further improve the quality of forging ingots for the open-die forge. Following the market trend we are currently creating the conditions to be able to produce forging ingots weighing up to 500 t and forged products in weights of around 250 t. There is increasing demand for such ingots, above all in the energy sector and for the building of large hot rolling mills. To increase capacity for the production of titanium ingots, ThyssenKrupp Titanium in Essen has invested in the building of new remelting furnaces.

Investment at ThyssenKrupp VDM focused on expanding production capacities for nickel alloys, particularly for the energy and aerospace sectors. By building a forging press with reheat furnace and expanding the remelting units we intend to increase business with rods, especially in large sizes. The forging press will go into operation in the 2nd quarter 2008. In the sheet and wire product groups, investment centered on expansion and rationalization. The relocation of wire production from Bärenstein to Werdohl, now almost complete, provides us with a modern, efficient and competitive production setup.

Shanghai Krupp Stainless mainly invested in building processing capacities. A new stretcher-leveler is being installed to meet increasing flatness requirements for strip and sheet. The existing grinding/polishing line was upgraded to cover growing demand for decorative finishes.

ThyssenKrupp Stainless International invested further in expanding its distribution and service operations. New service centers were built in Poland and the UK, and an existing service center in Turkey is being moved to a better location and upgraded.

TECHNOLOGIES

TECHNOLOGIES IN FIGURES

		2005/2006	2006/2007
Order intake	million €	13,160	**14,844**
Sales	million €	11,366	**11,523**
Plant Technology	million €	2,266	**2,624**
Marine Systems	million €	1,932	**2,021**
Mechanical Components	million €	4,058	**3,793**
Automotive Solutions	million €	3,018	**3,182**
Transrapid	million €	17	**49**
Corporate/Consolidation	million €	75	**(146)**
Earnings before taxes (EBT)	million €	410	**544**
Employees (September 30)		54,757	**54,762**

Record earnings

At Technologies, 7,300 engineers develop innovative plants and components with high customer value.

ThyssenKrupp Technologies is a high-tech engineering contractor and component manufacturer which also provides tailored services for customers. The aim is to develop innovative products with high customer value. 7,300 engineers are working on this task worldwide.

The extremely positive performance of the Technologies segment continued unabated in fiscal 2006/2007. At €14.8 billion, order intake significantly exceeded the already high prior-year level. Sales at €11.5 billion were also higher, despite business disposals and the heavy impact of exchange rate effects. The pleasing order trend pushed orders in hand to around €15 billion, which means that more than a full year's sales are already secured.

Profits at Technologies increased by 33% to €544 million, easily exceeding our targets. The business units Plant Technology, Automotive Solutions and Transrapid played a major part in this increase. The biggest earnings contribution was again generated by the Mechanical Components business unit.

Plant Technology

High raw material and energy prices as well as numerous infrastructure projects, especially in the Middle East, Northern Africa and Eastern Europe, pushed up demand for the specialized and large-scale facilities offered by Plant Technology. Order intake, already high last year, increased to a new record level thanks to a number of major contracts. Customers ordered polymer plants, fertilizer complexes, electrolysis plants, coke oven plants, bulk handling systems, oil sands mining equipment and cement plants. At €2.6 billion sales were up sharply from the prior year, mainly thanks to the good order situation for chemical plants and mining and handling equipment. Plant Technology achieved excellent profits.

Marine Systems

Order intake at Marine Systems in 2006/2007 was slightly lower than a year earlier. Major contracts included the F125 frigate program for the German Navy, nine yachts and two SWATH ships for the German customs authority. The repair and service business performed very well, achieving a significantly higher volume of orders. Sales at Marine Systems were up slightly at €2.0 billion, while profits were unchanged.

Mechanical Components

Wind turbines are an important field of use for the slewing bearings and rings made by the Technologies segment.

At Mechanical Components the positive demand trend continued, with order intake higher than sales. Sales slipped slightly to €3.8 billion as a result of disposals and US dollar/euro translation effects. These were only partly offset by significant sales increases for slewing bearings and rings, thanks mainly to continued growth in the wind turbine sector. Mechanical Components again achieved a large profit in 2006/2007.

Automotive Solutions

The order situation in the Automotive Solutions business unit was pleasing. All operating groups contributed to the marked increase in orders, in particular the body shop equipment, tooling and assembly systems operations. Sales were also up from the prior year at €3.2 billion. Automotive Solutions significantly improved its earnings and recorded a two-digit million profit.

Transrapid

Transrapid achieved sales of €49 million with positive profit contributions mainly due to billings under the Chinese license contract.

Significant events

The sale of the body and chassis operations of ThyssenKrupp Budd with sales of around €1 billion was completed in the 1st quarter 2006/2007. In this connection we also disposed of our shareholding in the Mexican company Aventec. That completes our withdrawal from the loss-making North American body and chassis business.

Technologies also sold various marginal activities which are no longer part of our core business. They include the ThyssenKrupp Fundições foundry in Brazil, the production of car jacks and the manufacture of components for armored vehicles at B+V Industrietechnik.

In the Marine Systems business unit the naval electronics business of EADS was integrated into the joint venture Atlas Elektronik. This strengthened the technological base of Atlas Elektronik as a leading supplier in the European naval electronics industry. As a result of this transaction ThyssenKrupp's shareholding in Atlas Elektronik decreased from 60% to 51%.

As part of the strategy to expand its service business, Plant Technology acquired A-C Equipment Services Corp. based in Milwaukee, USA. The company, a market leader in kiln servicing and repairs, makes the business unit a full service provider in this fast-growing North American market segment.

Capital expenditures

Investment at Technologies focused on capacity expansion, rationalization and measures to increase efficiency.

Capital expenditures in the Technologies segment reached €581 million in the reporting year, with depreciation totaling €341 million. One focus of the spending was to expand existing production capacities. In addition, all Technologies companies invested considerable funds in rationalizing production processes to increase efficiency.

Mechanical Components began operation of an automated production line for assembled camshafts in the USA and invested in a new machining line for mid-range crankshafts in Brazil to meet growing demand. The line embodies a new production concept with far superior performance to conventional lines. Continuing high demand in the renewable energies sector prompted Mechanical Components to further expand its ring rolling capacities in both Germany and China. In response to continuing demand for wind turbines we began extensive investment programs at several plants to create additional capacities for the production of slewing bearings.

Automotive Solutions invested in various production units for innovative products such as DampTronic shock absorbers and heavy-duty springs. The business unit expanded its assembly capacities on the fast-growing Brazilian market.

In addition we made various financial investments. For example, Plant Technology acquired the remaining shares in a Mexican engineering company and bought a service company in the USA to expand its plant service operations in North America.

ELEVATOR

ELEVATOR IN FIGURES

		2005/2006	2006/2007
Order intake	million €	4,690	5,281
Sales	million €	4,298	4,712
Central/Eastern/Northern Europe	million €	1,282	1,389
Southern Europe/Africa/Middle East	million €	571	774
Americas	million €	1,804	1,821
Asia/Pacific	million €	453	505
Escalators/Passenger Boarding Bridges	million €	306	347
Accessibility	million €	167	190
Corporate/Consolidation	million €	(285)	(314)
Earnings before taxes (EBT)	million €	391	(113)
Employees (September 30)		36,247	39,501

Expansion continued

The Elevator segment is active in the installation, modernization and servicing of elevators, escalators, moving walks, passenger boarding bridges, stair and platform lifts. Its capabilities cover the entire product range, from installations for the volume market to individualized custom solutions. Closeness to customers throughout the world is ensured by a tight-knit network of branches and service operations.

Elevator remained on growth track in 2006/2007, increasing its sales by 10% to €4.7 billion.

Elevator continued its expansion in both the new installation and service businesses in 2006/2007, despite negative exchange rate effects. Order intake increased by 13% to €5.3 billion. Sales climbed by 10% to €4.7 billion. While the growth in the new installations business was mainly due to our continuing strong performance in North America, the expansion in the maintenance business took place in all regions. The growth of the service business is also due to the success of our global service strategy, which guarantees the same high service standards everywhere in the world.

The Elevator segment made a loss of €113 million in the reporting year. This is due to the impact of the fine imposed by the EU Commission for alleged anticompetitive behavior at national level in the Benelux countries and in Germany on the market for elevators and escalators. Excluding this effect, and despite negative exchange rate effects, Elevator almost equaled its prior-year earnings with a profit of €367 million.

Central/Eastern/Northern Europe

The Central/Eastern/Northern Europe business unit significantly exceeded its prior-year order intake and sales levels. A major role in this was played by new installations and modernization projects in France. New orders were also very pleasing in Eastern Europe, mainly thanks to our Russian operations. However, earnings of the Central/Eastern/Northern Europe business unit were significantly down from the prior year, even excluding the EU fine. An increase in profits at our production operations was unable to offset earnings drops on the UK and Eastern European markets. Stiff competition in the new installations market made itself particularly felt in the UK.

The Asia-Pacific region will be an important market for Elevator in the future, especially for new installations.

Southern Europe/Africa/Middle East

The Southern Europe/Africa/Middle East business unit recorded higher orders and significantly higher sales. The sales growth was mainly due to strong new installations and service business in Spain. Southern Europe also made a substantial contribution, with newly consolidated companies in these countries having a positive impact. The business unit significantly exceeded its prior-year earnings, with the profit growth coming mainly from the Spanish and Portuguese operations. The newly acquired Italian companies also delivered a strong earnings contribution.

Americas

The Americas business unit recorded improvements in both sales and orders, more than offsetting the negative exchange rate effects. A large part in this was played by the new installations and service activities in North America. The situation in Brazil was also very pleasing, easily compensating for a slightly weaker performance in the other countries of Latin America. The business unit increased its earnings significantly despite negative exchange rate effects. Higher sales, improved margins and increased efficiency resulted in substantially higher profits in North America. Earnings in Brazil were also higher.

Asia/Pacific

The Asia/Pacific business unit achieved higher orders and sales despite negative exchange rate effects. The growth in China was due to continuing high demand for new installations. Business in Australia was expanded particularly in the new installations area. Although the market environment in South Korea remained difficult, order intake and sales were stable – mainly due to the expanding service business. The business unit recorded a loss in the reporting year. The Chinese, Australian and Southeast Asian operations increased their earnings contributions but this was not enough to offset the renewed profit drop in South Korea.

Escalators/Passenger Boarding Bridges

The Escalators/Passenger Boarding Bridges business unit significantly expanded both its order intake and sales. Whereas business in escalators was down from the prior year due to intensive price competition, sales of passenger boarding bridges were distinctly higher thanks to growth in air traffic. The business unit recorded a loss due to the EU fine. At operating level, however, the unit achieved a profit, albeit lower than a year earlier. The passenger boarding bridges business was unable to match its prior-year earnings, and profits also dropped in the escalator business due to the difficult competitive situation.

Accessibility

The Accessibility business unit remained on expansion track, significantly exceeding its prior-year order and sales levels. The growth in business was substantial in some parts of the main European markets. In the USA, sales equaled their prior-year level despite negative exchange-rate effects. The business unit increased its profits considerably. The earnings increases resulted from the European operations.

Significant events

Elevator's acquisition strategy in 2006/2007 again focused on strengthening its worldwide sales and service operations. Thanks to the acquisition of several regional maintenance and service companies in Italy, Elevator further consolidated its market position in this important European elevator market. Alongside Southern Europe, the expansion strategy focused on the Eastern European region: there were smaller acquisitions in Croatia and Slovenia and the segment set up its own subsidiaries in Romania and Lithuania.

The acquisition of the operations of an elevator manufacturer in California further strengthened the position of Elevator in the San Francisco region. The segment's market presence in the southeastern USA was also bolstered by the acquisition of the operations of one of the largest distributors of home elevator products.

Capital expenditures

Capital expenditures in the Elevator segment in the reporting year amounted to €122 million, with depreciation at €62 million. The investment mainly served to maintain existing operations. As part of our efforts to standardize components, particular investment was made in the modernization of production technologies in our elevator plants in Madrid, Spain, and Angers, France. Financial investment focused on the acquisition of equity interests and service packages, particularly with a view to developing the Italian market.

SERVICES

SERVICES IN FIGURES

		2005/2006	2006/2007
Order intake	million €	14,602	16,823
Sales	million €	14,204	16,711
Materials Services International	million €	6,449	7,926
Materials Services North America	million €	2,330	2,340
Industrial Services	million €	1,716	1,899
Special Products	million €	3,650	4,600
Discontinued operations/Consolidation	million €	59	(54)
Earnings before taxes (EBT)	million €	482	704
Employees (September 30)		40,163	43,012

Sales and earnings at new record levels

The Services segment provides materials and industrial services to customers all around the world.

The segment is focused on material and industrial services and on the supply of raw materials to the production and manufacturing sectors. As well as distributing and selling rolled and stainless steel, pipe, nonferrous metals and plastics, the segment also offers services ranging from processing and logistics, to warehouse and inventory management, to supply chain management. Our industrial services, in addition to sophisticated maintenance activities, also include production support services such as in-plant logistics, pre-assembly and just-in-sequence delivery to production companies. The segment also supplies metallurgical raw materials around the world as well as innovative technical system solutions.

Successful expansion measures, portfolio optimizations, efficiency programs and sales initiatives had a positive impact in the reporting year – in conjunction with the continuing good market for raw and processed materials. 2006/2007 was another record year for Services. Sales and earnings hit new highs. Sales increased by 18% to €16.7 billion, while earnings rose by 46% to €704 million.

Materials Services International

Materials Services International achieved further successful growth in 2006/2007. Sales increased once again. Business in rolled steel was at a high level for demand and price reasons. However, the stainless steel market came under pressure due to increased imports from Asia and a significant price drop for nickel in the third quarter of the fiscal year. In nonferrous metals, the market was characterized by long delivery times and high price levels. The plastics business performed positively on the whole without showing the major volume and price movements of the metal markets. The business unit significantly increased its sales volume thanks to a focus on high-end materials, particularly for the aerospace industry, and the acquisition of additional service contracts. Overall, the importance of integrated materials services increased further in the reporting year. Our marketing concepts, comprising not just the supply of materials but also additional services from processing to supply chain solutions, bore fruit.

The materials activities in Germany benefited from the strong workload of important customer industries.

Our materials operations in Germany had a very pleasing year. Key industries such as the mechanical engineering, plant engineering and automotive supply sectors enjoyed good workloads thanks to strong domestic and foreign demand. The foreign subsidiaries also benefited from the positive materials market. In France, Spain, the Benelux countries, the UK and Scandinavia, sales volumes were up from the prior year. We successfully continued our growth strategy in Eastern Europe – among other things by entering the Slovakian market and expanding our operations in Russia.

Against the background of a generally favorable materials market, Materials Services International increased its profits substantially.

Materials Services North America

The Materials Services North America business unit equaled its high prior-year sales level. In some regions growth was strengthened by targeted strategic measures; the service portfolio was also expanded especially in the area of supply chain management.

The materials market in North America was slightly weaker than in Europe. Although demand in the main markets remained at a high level – with the exception of the auto industry – prices, above all for flat steel products, were below those of other markets, which made imports very difficult. Prices of nonferrous metals were extremely volatile.

Materials Services North America fell just short of its very good prior-year earnings mainly because of price and exchange-rate effects.

Industrial Services

The Industrial Services business unit significantly increased its sales from the prior year. In Germany, increased selling efforts, supported by the good market situation, had a positive impact. In addition to our traditional sectors, business with the energy and chemical industries was expanded. The new operations in South America also made a significant contribution to the sales growth. In the future we will handle all steel mill services for the Steel segment's new steel mill in Brazil. In North America, sales increased slightly despite less favorable exchange rates.

The Industrial Services business unit doubled its earnings, mainly as a result of domestic business, although the foreign operations also generated very good results. Worthy of particular mention is our positive performance in Brazil and Norway as well as in steel mill and plant services, mainly due to efficiency enhancement programs. Earnings were positively impacted not least by the sale of SIR Industrieservice. Overall, the business unit significantly improved its operating performance in all areas.

Special Products

The Special Products business unit significantly improved on its very high prior-year sales level. There was a particular increase in rolled steel business with China and Brazil. The substantial investments made in projects to develop new raw material sources resulted in a demand overhang for pipe; due to limited availability business in large-diameter pipe was slightly down from the prior year.

The technical systems business benefited from high spending on infrastructure measures worldwide, particularly in Germany, Eastern Europe and the USA. The business significantly exceeded its already high prior-year sales. The contractors' plant business with its flood protection and port expansion capabilities, and the track business with equipment for road and rail traffic, significantly expanded their systems business both nationally and internationally. In the area of raw materials supply, there were increased sales of metallurgical products, nonferrous metals, minerals and industrial gases. Business in coke was slightly down from the prior year.

Starting from an already very high prior-year level the profits of the business unit increased at an even faster rate than sales. All areas of the business unit contributed to this.

Significant events

The acquisitions of Services were focused on expanding business in the USA and Eastern Europe.

The acquisition policy of Services in the reporting period focused mainly on further expanding our US and Eastern European operations. However we also strengthened our activities in Germany, the rest of Western Europe and Asia. Some marginal activities were sold in Spain and Germany. The portfolio was further focused on the core activities of materials services, industrial process services and raw material supply.

Services expanded its material service business for the aerospace industry by acquiring the aerospace service business of Alcoa in Pittsburgh. This business specializes in the distribution and warehousing of aluminum materials and in high-end processing services for aircraft manufacturers. In North America we thus succeeded in intensifying our already successfully established materials services for the aerospace industry. Via our activities in Germany and the UK we also created a sustainable sales channel to the aerospace industry in Europe.

Services intends to strengthen its market position in Eastern Europe and to this end signed an agreement to acquire a majority interest in Ferostav. The company is one of the largest steel distributors in Slovakia and offers processing services for steel plate, reinforcing bar, merchant bar, structural shapes, wide-flange beams and pipe. Its main customers are in the construction and engineering industries.

Our plastic services business further improved on its leading position on the European market with the acquisition of Stokvis Plastics with a central warehouse and five service centers in the Netherlands and Belgium. Stokvis Plastics is focused on the sale, distribution and processing of semi-finished plastic products as well as tailored solutions for plastic sheet, film and piping. In addition, a joint venture to distribute materials was set up with a local partner in Vietnam, one of the fastest-growing regions of Asia. In the medium term it is planned to expand this business systematically to become a full-line supplier.

In the field of industrial services, Services expanded in Germany and the Czech Republic, where we acquired activities in the areas of industrial maintenance, coating technology and automation, instrumentation and controls.

Capital expenditures

Services invested a total of €282 million in business expansion and optimizing its activities.

Capital expenditures in the Services segment reached €282 million, with depreciation at €156 million. The main investment went into business expansion. In Germany, we built a new center for materials services in Wörth and expanded our capabilities for track system solutions. Outside Germany, we developed our SAP-based IT infrastructure in the NAFTA region and expanded our processing centers in Russia. Services also invested in optimizing the logistics of its plastics operations. The remaining investment served to maintain existing operations, develop new distribution channels, increase processing capacity and expand the supply chain management business – especially in North America.

CORPORATE

Corporate comprises the Group’s head office including corporate services as well as non-operating companies not assignable to individual segments. Also included here is non-operating real estate, which is managed and utilized centrally. The retained assets and liabilities of ThyssenKrupp Budd are also assigned to Corporate. As this company’s operations have now been sold, Corporate sales decreased from €1,469 million to €288 million.

Expenditure at Corporate amounted to €205 million before taxes, an improvement of €241 million compared with the prior year. €205 million of this is due to the absence of the negative earnings contribution of the since sold North American automotive operations. Set against this was the absence of the €153 million Dofasco break fee received in the prior year. The sale of real estate in connection with the concentration of our head office locations in Germany resulted in a gain of €115 million. Net interest improved by €83 million as a result of changed Group structures.

Financial position

ThyssenKrupp's financial position is characterized by increased enterprise value. The cash flow statements and balance sheet structure document the success of the company. Our success is also due to a central financing system which optimizes capital procurement and investment for the Group.

CENTRAL FINANCING AND MAINTENANCE OF LIQUIDITY

The aim of our financing policy is to ensure that we have sufficient liquidity reserves at all times to meet the Group's payment commitments.

The main source of liquidity for the Group are cash inflows from operating activity.

The financing of the Group is managed centrally by ThyssenKrupp AG, which maintains the liquidity of the Group companies mainly by making available funds within the Group financing system, negotiating and guaranteeing loans or providing financing support in the form of letters of comfort. Liquidity is maintained on the basis of a multi-year financial planning system and a liquidity planning system on a rolling monthly basis. Both planning systems comprise all consolidated Group companies.

The operating activities of our Group subsidiaries and the resultant cash inflows represent the Group's main source of liquidity. Our cash management systems take advantage of the surplus funds of individual Group companies to cover the financial requirements of others. By settling intercompany sales via intercompany financial accounts, we can reduce bank account transactions and thus bank charges. Our intercompany cash management system reduces external financing requirements with a positive effect on our net interest.

Any external financing required is covered by bilateral and committed syndicated credit facilities. These funds can be obtained in various currencies and over various terms. In addition, money and equity market instruments are used as well as other selected off-balance financing instruments such as factoring programs and operating leases. Information on the available credit facilities is provided in Note 25 on page 173.

Our centralized financing system strengthens the Group's negotiating position vis-à-vis banks and other market participants, enabling us to procure and invest capital on optimum terms. Interest and foreign currency management is also carried out on a centralized basis.

Issuer rating since 2001

Issuer ratings facilitate access to international capital markets. ThyssenKrupp has been rated by Moody's and Standard & Poor's (S&P) since 2001 and by Fitch since 2003. ThyssenKrupp is currently rated by the agencies as follows:

	Long-term rating	Short-term rating	Outlook
Standard & Poor's	BBB	A2	stable
Moody's	Baa2	Prime–2	positive
Fitch	BBB+	F2	stable

ANALYSIS OF STATEMENTS OF CASH FLOWS

Capital expenditure is a key factor affecting cash outflows in the cash flow statement.

The amounts taken into consideration in the statements of cash flows correspond to the balance sheet item "Cash and cash equivalents".

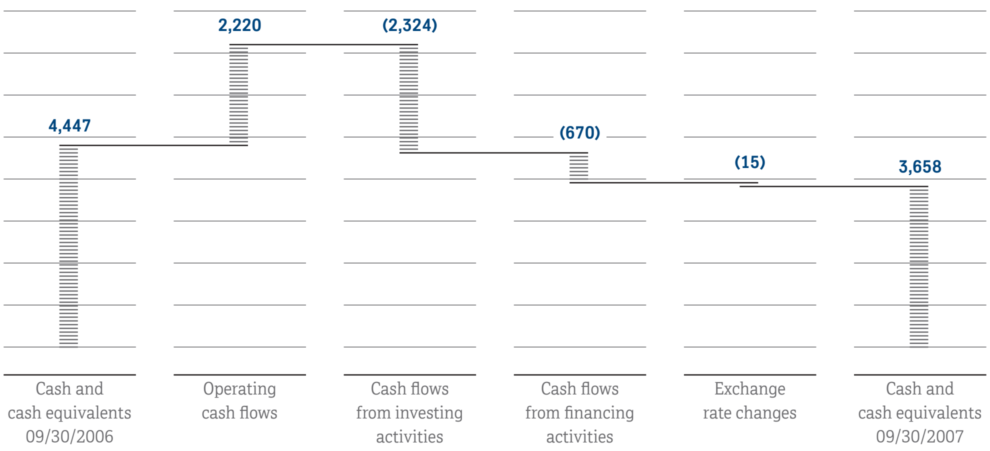
Operating activities provided €2.2 billion during fiscal year 2006/2007 compared with €3.5 billion in the previous year. The decrease in operating cash flows by €1.3 billion mainly resulted from the stronger increase in working capital as a result of the business expansion.

Cash flows from investing activities increased by €0.6 billion to €2.3 billion in the reporting year. This was mainly the result of the €1.2 billion increase in cash outflows for the purchase of property, plant and equipment, mostly in connection with the construction of the steel mill in Brazil. Running counter to this, cash outflows for the purchase of consolidated companies and financial assets decreased by €0.3 billion and cash inflows from the sale of consolidated companies and property, plant and equipment increased by €0.3 billion against the year before.

In accordance with this situation, the free cash flow, i.e. the sum of operating cash flows and cash flows from investing activities, decreased by €1.9 billion to €(0.1) billion in fiscal 2006/2007.

Cash flows from financing activities decreased by €1.3 billion to €0.7 billion during the year under review. The higher cash outflows the year before were mainly the result of the repayment of two bonds in the total amount of €0.8 billion and cash outflows for the repurchase of treasury stock in the amount of €0.7 billion, which were set against cash inflows of €0.3 billion from the sale of treasury stock to the Alfried Krupp von Bohlen und Halbach Foundation. In addition, cash outflows for the repayment of financial liabilities decreased by €0.2 billion in fiscal 2006/2007.

CHANGE IN CASH AND CASH EQUIVALENTS in million €



ANALYSIS OF BALANCE SHEET STRUCTURE

The following balance sheet presentation includes assets and liabilities held for sale which were reported separately in the previous year.

The balance sheet total increased by €1,612 million to €38,074 million.

Significant balance sheet line items, particularly inventories, trade accounts receivable and payable, and total equity increased compared with September 30, 2006. This is mainly the result of the expansion in business. Property, plant and equipment and net financial liabilities likewise increased on account of the growth in investment activity. Shifts in exchange rate relations, primarily the relation of the US dollar to the euro, which increased from €1.27/US dollar as of September 30, 2006 to €1.42/US dollar as of September 30, 2007, led to a decrease in the balance sheet total by €468 million.

The decrease in intangible assets by €122 million resulted primarily from shifts in exchange rate relations and from goodwill impairment charges in particular in the Steel segment. The capitalization of development costs and software had the opposite effect.

The €917 million rise in property, plant and equipment was mainly the result of progress on the construction of the steel mill in Brazil. The €112 million reduction in investment property is connected with the sale of non-operating real estate as part of the concentration of ThyssenKrupp's administrative sites in Germany.

Higher raw material prices and increased inventory levels caused an increase in the value of inventories in the reporting year.

The increase in inventories by €1,349 million to €9,480 million is chiefly attributable to raw material price rises and increased inventory levels due to sales expansions. In particular the sharp decline in nickel prices from the beginning of June led to impairments in the amount of €157 million.

Trade accounts receivable as of September 30, 2007 were up by €313 million from a year earlier. The amount of sold trade accounts receivable as of September 30, 2007 decreased by €60 million compared with the previous year. The increase in trade accounts receivable is the result of sales expansion in terms of volume and price in all segments.

Cash outflows for acquisitions, dividends and the repayment of financial liabilities exceeded cash inflows from operating activities, resulting in a decrease in cash and cash equivalents by €789 million to €3,658 million.

Deferred tax assets declined by €322 million mainly as a result of the adjustment of the tax assessment basis applied to accrued pension obligations in line with the corresponding IFRS rules. At the same time deferred tax liabilities increased by €128 million. Current income tax assets increased by €265 million.

Total equity increased by €1,520 million to €10,447 million. The main factor here was the net income achieved during the fiscal year of €2,190 million. In addition, actuarial gains associated with accrued pensions and similar obligations recognized directly in equity raised equity by €462 million before taxes. Equity decreased due to dividend payments [€521 million], currency translation adjustments [€261 million] and unrealized losses from derivative financial instruments [€193 million]. In addition, total equity was reduced by €111 million due to taxes on income and expenses directly recognized in equity.

Accrued pension and similar obligations decreased significantly in 2006/2007.

Accrued pension and similar obligations in the reporting period decreased by €972 million to €7,139 million. This drop mainly resulted from a further increase in the discount rate in most of the relevant currency areas, the sale of the body and chassis activities in North America, and shifts in the exchange rate relations, in particular the US dollar to the euro.

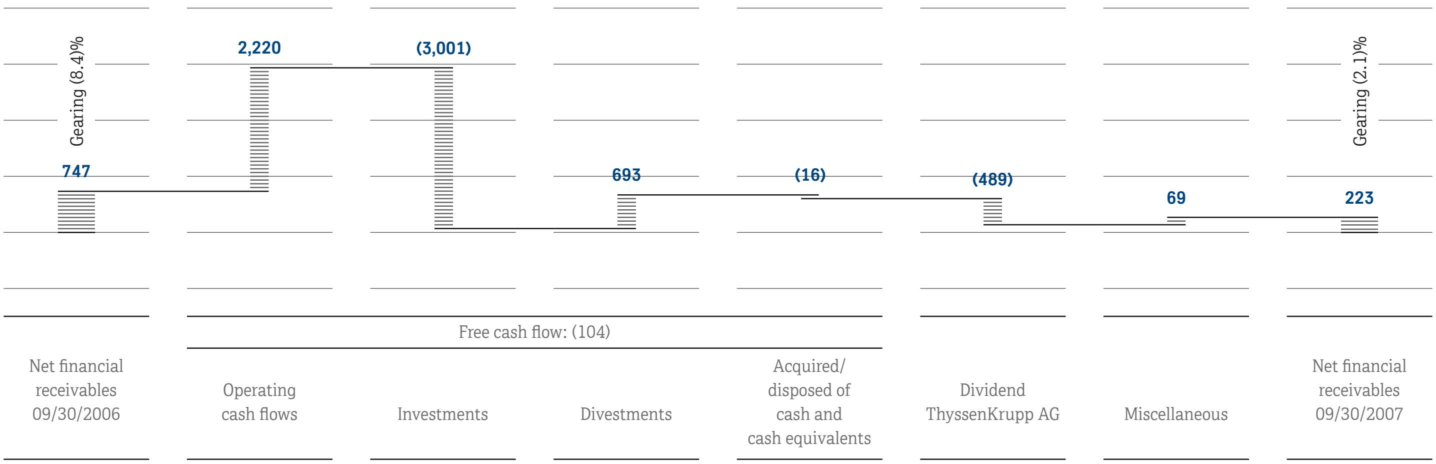
Other current and non-current provisions were unchanged overall from the previous year.

Current and non-current financial liabilities declined in total by €166 million. The mostly cash-relevant reduction in financial liabilities was reinforced by an exchange-rate-related decrease.

Trade accounts payable increased by €231 million as a result of business expansion.

The €745 million rise in other current liabilities was also primarily the result of business expansion and related mainly to increased liabilities in connection with manufacturing orders [€251 million] in the Technologies and Elevator segments, an increase in customer advance payments received [€112 million] and higher trade accounts payable to associated companies and other investees [€119 million]. In addition, a liability from a put option previously classified as non-current was reclassified to current liabilities.

NET FINANCIAL LIABILITIES in million €



ASSETS NOT RECOGNIZED AND OFF-BALANCE FINANCING INSTRUMENTS

In addition to the assets posted in the consolidated balance sheet, the Group uses assets which cannot be recognized in the balance sheet. These mainly concern specific leased or rented assets (operating leases). More details on this are presented under Note 28 on page 175.

The main off-balance financing instruments used by the Group are factoring programs. More details can be found under Note 19 on page 161.

A major intangible asset is the ThyssenKrupp brand. It is continually further developed via a package of measures including an image film, TV commercials, press advertisements and outdoor advertising. Our logo also contributes to the brand value by enhancing the brand's impact and recognition value and distinguishing us from our competitors.

Our long-standing supplier and customer relationships frequently give us a competitive edge on the market.

Also of special importance are our long-standing and trustful relations with suppliers and customers. They bring stability to our business activities and make us less sensitive to sudden market fluctuations. They also allow close technical cooperation with our partners in which the expertise and development capacities of the companies involved can be combined to create new, future-oriented products. These well established collaborations provide a competitive advantage over newcomers on our markets and therefore safeguard our market positions.

One example of our network of capabilities along the process chain is the cooperation between our Steel segment and the automotive industry. Our input as steel producer includes all stages in the development and production process from high-quality materials through to finished components and complete auto body concepts for vehicle designers. Such intelligent and mature solutions based on our materials expertise provide our customers with real value added which pays dividends on the market.

Innovations

In the competition for the future, our key factor is knowledge. Our ambitious and innovative researchers and developers work close to customers to find new ways of further optimizing our products and processes. Many people join forces in the Group to improve existing products and services and develop new ones.

STRONG INNOVATIVE CAPABILITIES

We spent €815 million on innovations in the reporting year – an increase of 10%.

As a technology-oriented group, ThyssenKrupp once again placed a strong emphasis on research and development work in the reporting period, increasing its total spending on innovation by almost 10% from the previous year to €815 million. €257 million was spent on basic research and development projects – including capitalized development costs; a third of this was for projects outside Germany. Customer-related development projects accounted for €294 million. That represents a 17% increase in R&D spending from the previous year. Expenditure for technical quality assurance was €264 million.

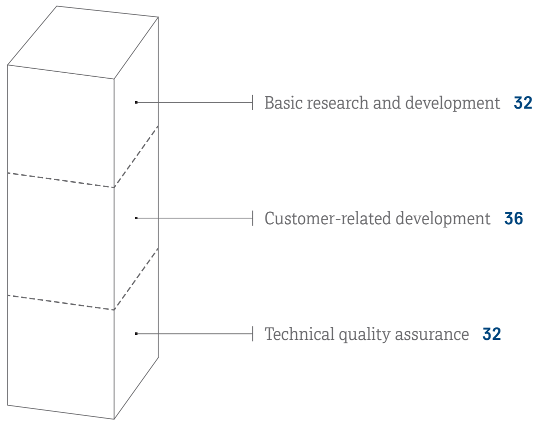
INNOVATON SPENDING in million €

	2002/2003	2003/2004	2004/2005	2005/2006	**2006/2007**
Basic research and development	183	191	186	241	**257**
Customer-related development*	156	182	266	230	**294**
Technical quality assurance	290	275	281	272	**264**
Total	629	648	733	743	**815**

* including outside R&D funds and public funding

In 2006/2007, there were more than 3,300 people working at the Group's 85 development centers and departments around the world to improve our products and processes. To exploit existing synergy potential in the Group even more systematically, ThyssenKrupp AG as holding company has intensified cross-segment R&D collaboration by providing funding for projects in key areas. Also of great importance were cooperative projects with third parties. In this way we ensured that our development work was closely aligned to the wishes and requirements of our customers. In addition, cooperation with external scientists enables us to keep up with the very latest developments in science and engineering. That was the reason behind our involvement in the establishment of the Interdisciplinary Centre for Advanced Materials Simulation (ICAMS), a research institute based at the Ruhr University in Bochum.

INNOVATON SPENDING 2006/2007 in %

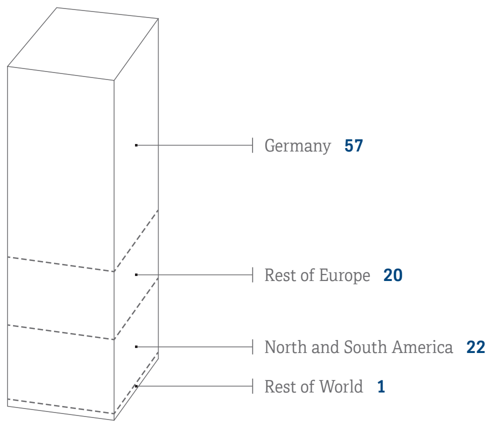


The ICAMS research institute will develop high-tech materials with the aid of innovative simulation techniques.

Public-private partnership in leading-edge research

ICAMS is being set up by ThyssenKrupp in conjunction with the state of North Rhine-Westphalia and six other business and scientific partners. This leading-edge research institute, the only one of its kind in Europe, will mainly work on the development of high-tech materials tailored to customer requirements and the needs of advanced production processes. For this, ICAMS will employ innovative simulation processes which hold the promise of faster, resource-friendly material and product developments with a stronger market focus.

RESEARCH AND DEVELOPMENT CENTERS WORLDWIDE in %



RESEARCH AND DEVELOPMENT AS THE BASIS FOR SUCCESSFUL INNOVATIONS

High-level research and development work in all the Group's segments has produced innovative products and processes which will contribute to our market success in the coming years.

Research offensive for innovative automotive solutions

InCar, our wide-ranging research and development offensive for innovations in automotive construction, was unveiled to the public at the 2007 Frankfurt Motor Show (IAA). This cross-segment project brings together the full automotive expertise of the Steel and Technologies segments. InCar is designed as a solutions and ideas pool for body, chassis and powertrain products. Whether customers require parts, assemblies or systems, they can choose from several alternatives to meet their exact needs.

Steel: new lightweighting steel grades developed

We developed two new dual-phase steels for weight reduction in the auto industry.

The Steel segment has developed two new dual-phase steels with strengths of 800 and 980 Megapascals (MPa) for automotive lightweighting. Unlike conventional advanced ultrahigh-strength steels, the new materials will be available with hot-dip galvanized surfaces to meet strong demand from OEMs. Normally, the high alloy content of advanced ultrahigh-strength steels makes hot-dip galvanizing difficult. We have improved not only the alloying concept for our new steels but also the coating technology used with the result that the new materials can be supplied not only hot-dip galvanized but also galvannealed. With the galvannealed finish, an annealing treatment provides improved weldability.

In collaboration with Japan's second-biggest steel producer JFE Steel Corporation we have developed a new multiphase steel for automotive applications. It has a similar strength to that of the advanced ultrahigh-strength steels CP-W 800 from Steel and NANO 780 from JFE. But with up to 40% higher elongation it possesses significantly improved forming properties. Initial parts have confirmed the advantages of this new steel.

TRIP steels were launched successfully several years ago. A new variant with reduced carbon content has now been developed which is more readily weldable and thus easier to process. The material has already been successfully tested under production conditions. TRIP (Transformation Induced Plasticity) steels are multiphase steels which achieve their ultimate strength during forming into finished parts.

In the area of tailored products, Steel has developed tailored blanks which are suitable for hot stamping. Automotive OEMs are making increasing use of hot stamping technology, in particular for the production of crash-relevant components; it permits the manufacture of extremely strong, thin-walled parts which enhance crash performance and at the same time meet demanding requirements for weight reduction. The use of tailored blanks made up of different steel grades makes it possible for the first time to produce hot-stamped parts which offer not only extremely high strength but also display sufficient elongation in defined areas to absorb crash energy.

Composites and surfaces with high potential

The DOC® Dortmunder OberflächenCentrum, one of the world's leading surface engineering centers, has started development work on an innovative sandwich product for large car body panels. It comprises two 0.2 mm to 0.3 mm thick face sheets made of steel and a 0.5 mm to 1.5 mm core layer of thermoplastic resin. The sandwich sheet has a considerably lower weight per unit area than common body panel sheets. Combined with its high flexural strength, the new material offers good lightweighting potential.

Successful trials have been carried out on the production use of an innovative surface coating developed at the DOC®. The new zinc-magnesium coating is applied by hot-dip coating and offers significantly greater corrosion protection than conventional hot-dip galvanized coatings. The laboratory findings were confirmed in production use. Customer-oriented processing tests were also successful.

Successful ideas for vehicle construction

Engineers from our Metal Forming unit developed a further highlight – an innovative lightweight steel rear axle beam. The new lightweight steel chassis costs around half as much as a benchmark aluminum design from an executive class car, and is only 10% heavier. Tailored blanks and an innovative joining technology which requires no welding flanges contribute to the outstanding properties of this development.

The new T3 profiling technology helps optimize car cockpit structures.

In conjunction with Johnson Controls, auto experts from our Technologies and Steel segments came up with an improved automobile cockpit structure. Their innovative solution is not only 20% lighter than the production benchmark, it also costs less to produce. At the same time it takes up less space, offering additional design possibilities for the front passenger area. One of the key innovations in this cockpit assembly is a so-called T3 profile. Developed by ThyssenKrupp, this profile varies in cross section over its length and is shaped in such a way as to be able to provide all the necessary support despite weighing less and having only half the length of a conventional beam. Steel's T3 profiling technology was awarded third prize in the 2007 ThyssenKrupp Innovation Contest.

Collaboration between ThyssenKrupp Steel and auto industry partner Webasto has resulted in the Multipurpose Tailgate, a concept for a flexible tailgate module with a variety of additional functions including an integrated rack system for bicycles, snowboards or an additional luggage box. The use of bake-hardening steels allows reduced sheet thickness and thus lower weight even in the basic version.

Extended construction elements portfolio

"Hoesch Matrix" is an innovative steel sandwich element developed by our construction element specialists for high-class, representative facades. It meets design standards which were previously the preserve of curtain wall solutions. As well as an attractive design, the new element provides the insulation and fire protection properties required of a facade. All key facade functions are combined in one element, which reduces construction times.

Stainless: strategic innovations

Strategic innovations in applications, materials, processes and products were at the center of Stainless' activities. Computer simulations played an increasingly important role in speeding up development work.

Stainless steel flat products conserve raw materials

With prices for the alloying elements nickel and molybdenum fluctuating sharply and occasionally very high, our efforts focused in particular on offering lower-cost alternatives and supporting our customers in switching to these new materials. One example is steel grade 1.4607, which has a 19% chromium content and excellent corrosion resistance, allowing it to be used as a substitute for the common chromium-nickel steel 1.4301 with no loss of performance. As this new material contains neither nickel nor molybdenum, it is ideal for use in automotive exhaust systems, where it will help reduce NO_x emissions.

Another material concept relates to high-performance steels with a high (24%) chromium content. They are being developed as a substitute for nickel- and chromium-alloyed steels in chemical and general plant construction as well as in energy and environmental engineering in areas requiring excellent corrosion resistance.

In close cooperation with customers, we have developed the first nickel-free stainless steel for use in drinking water pipes. The new material is market-ready and has met with universal acceptance. To meet rising demand we have further optimized the production technology for this material.

The project "NGV – Next Generation Vehicle" is uncovering new opportunities for stainless steel in auto production.

The collaborative project "NGV – Next Generation Vehicle" launched in late 2004 by leading stainless steel manufacturers and auto producers has now produced its first results: they demonstrate the potential of stainless steel for use as an auto construction material. The automotive OEMs participating in the project were Audi, BMW, DaimlerChrysler, Fiat, General Motors/Saab and Ford/ Volvo, while the stainless steel producers involved were ThyssenKrupp, Outokumpu and ArcelorMittal Stainless. The findings from the NGV project have been compiled in design and processing guidelines. It was shown that the use of stainless steel in vehicle construction can be especially beneficial in crash-relevant structural parts. A cost model was also developed in collaboration with the Boston MIT (Massachusetts Institute of Technology). It allows the use of different production methods and materials to be compared and the optimum stainless steel solution determined.

Progress on high-performance nickel and titanium materials

New nickel alloys for the growing aviation, power generation, oil and gas markets were a key area of our development work on high-performance materials. Certification is expected shortly for our aerospace alloy 718. Development activities focused in particular on optimizing production routes.

In the highly promising area of material developments for efficient 700 degree power plant technology, we collaborated with power utilities and boiler manufacturers on the development of a nickel grade alloyed with boron which allows thinner tube walls compared with the standard material. This variant is now undergoing trials on a pilot plant.

A nickel-tungsten alloy has been developed for use in high-temperature superconductor technology. Superconducting layers can be chemically applied to foils of this alloy in the laboratory. The objective is to develop this material for commercial production.

Titanium sheets developed by Stainless are also to be used in the new ThyssenKrupp Quarter.

There were also product improvements and new developments in the area of titanium. Colored large-size sheets were developed further for architectural applications. The focus here was on color stability and the possibility of mass production. The sheets are to be used on the new buildings of the planned ThyssenKrupp Quarter in Essen.

Funded by the German Ministry of Economics and Technology, the Aviation Research Program 2007 to 2012 aims to reduce costs for aircraft turbines. For this, the turbine disk and blades are to be produced as a compact component. That means that the titanium alloy used must satisfy additional demands on material and testing properties. For this reason our engineers are currently determining the forming properties with a view to simulating a suitable forging process.

Technologies: plant construction as a driver of innovation

Plant construction has developed into an important driver of innovation in the Technologies segment. Development work was carried out in many areas to ensure we can continue to offer customized, high-tech solutions in the future. Environmental protection plays a major role in this. Eco-friendliness and efficiency are key characteristics of the new HPPO process developed in collaboration with Degussa to produce propylene oxide, a feedstock for foam production. For its cost-efficiency and high customer value, this new process was rewarded with second prize in the 2007 Group Innovation Contest. Its first industrial-scale use will be for a customer in South Korea. Further international customers are expressing an interest.

Equally important for the environment is the EnviNOx® process, which is already on the market and was significantly enhanced in the last year. It removes environmentally harmful nitrous oxides from the tail gases of chemical plants, including in particular laughing gas (N_2O), which is roughly 30 times more harmful than CO_2. Under the Kyoto Protocol, EnviNOX® is a recognized technology carrying an entitlement to emission allowances. As the EnviNOX® process has established a new standard not only for the elimination of N_2O but also for the reduction of NO_x emissions, it was recently adopted as “Best Available Technique” for official approval procedures in the European Union.

Resource conservation through innovative automotive components

A major area of research by scientists and engineers in the automotive supply operations of the Technologies segment focuses on further reducing weight, consumption and emissions for cars and trucks. To this end we have developed an innovative integrated concept which is being offered to automotive OEMs as an “automotive component kit to reduce CO_2 and NO_x emissions”. It includes lightweighting through the use of high-strength materials and alternative manufacturing processes which can achieve weight savings of 10% to 30% for crankshafts, camshafts, differentials and dampers. It also addresses ways of lowering fuel consumption through innovative camshaft concepts and by using new bearing designs to reduce friction in the engine.

Combining our springs and dampers activities generated considerable development synergies. Our module capabilities have been extended: spring-damper modules integrating several components offer lower weight, noise and friction plus longer lifetimes. This gives us a significant lead over competitor products.

New container ships launched

Our newly developed family of container ships for 3,100 to 3,700 standard containers offers shipping companies around the world exceptional price-performance ratios for maritime transportation. In addition to the basic ship, several variants have been developed and the design, engineering and production processes for this type of ship optimized.

High-quality components for wind turbines

Wind turbines are subject to high operating loads which place great demands on the components used – a major challenge for our engineers and technicians. Reliability and wear resistance are key factors. One good example is the use of our large-diameter slewing bearings in the rotors of wind turbines. A newly developed hardening process for these bearings improves the hardening of the bearing raceways at comparatively low cost and thus makes a significant contribution to economic and ecological energy generation.

Elevator: high speed with TurboTrack

TurboTrack, a new development from Elevator, can transport passengers faster than conventional moving walks.

TurboTrack, a groundbreaking new passenger transportation product, was launched in the reporting period. In the entry and exit sections of the moving walk, the system moves at a speed that allows passengers to step on and off in comfort. The central section of the TurboTrack accelerates smoothly to 2 m per second. This innovative technology can transport more people at higher speed and without waiting over distances of up to one and a half kilometers. With a continuously moving pallet walkway and three speed zones, the TurboTrack is an attractive product for numerous areas of application.

The first two systems have been put into operation at Toronto International Airport in Canada. TurboTrack also offers significant advantages in public transit systems. It can be used to link neighboring stations, opening up new potential routes and connections. The practical benefits for passengers – shorter distances, more direct connections – significantly enhance the attractiveness of city subway systems. TurboTrack was awarded first prize in the 2007 ThyssenKrupp Innovation Contest.

TWIN: the success story continues

Our TWIN elevators are already in use throughout the world. Now they are to be installed for the first time in a hospital. As part of the expansion of the renowned Royal London Hospital, TWIN systems – with two cabs running independently in one shaft – will be designed as bed elevators. Larger cabs with a payload capacity of up to 2,500 kg and increased passenger capacity will provide fast and comfortable transportation for patients. The use of our elevators frees up valuable space for patient care.

In the Federation Tower in Moscow, all 11 TWIN elevators in Tower B are now operating successfully. Covering a rise of 180 meters, they travel for the first time at speeds of up to 7 meters per second. Another 10 TWIN elevators will be installed in Tower A in 2008.

Maximum elevator travel comfort thanks to laser technology

The guide rails of high-speed elevators are aligned by means of laser beam – for maximum precision and safety.

Modern buildings are getting taller and taller. For the high-performance elevators installed in such buildings, utmost precision in the guide rails is a key quality factor, not least because of the high speeds such elevators move at. Conventional methods of rail alignment are no longer adequate. The Elevator segment has developed a completely new laser alignment system which guarantees accuracy in the micrometer range. It was first used in the 492 meter high Shanghai World Financial Center, where our double-deck elevators – combining two cabs in a joint frame – run at 10 meters per second.

Services: environmental protection and customer benefit as innovation drivers

Innovation and development work in the Services segment was focused on new processes and systems related to the environment. We succeeded in increasing the efficiency of conventional power plants and modernizing steam generators of all kinds. In this, our engineers and technical experts seek new ways of reducing emissions and enhancing efficiency through innovative power plant technologies. For example, a modernization project in Würzburg combines the use of a low-emission fuel with efficient gas and steam turbine technology in a combined heat and power plant. When generating only power, this improves plant efficiency by up to 47%. If heat is also to be produced, the fuel is utilized even more effectively. Overall, primary energy consumption is reduced by at least 10% and CO_2 emissions by 50,000 tons per year.

A further innovation relates to the area of rail technology. We have developed a new slab track system in which a prefabricated concrete frame is placed on drilled piles as a support for the rails. This greatly simplifies the earthwork required both when laying new tracks, e.g. for high-speed trains, and when replacing existing ballasted tracks. Construction and maintenance costs are significantly reduced.

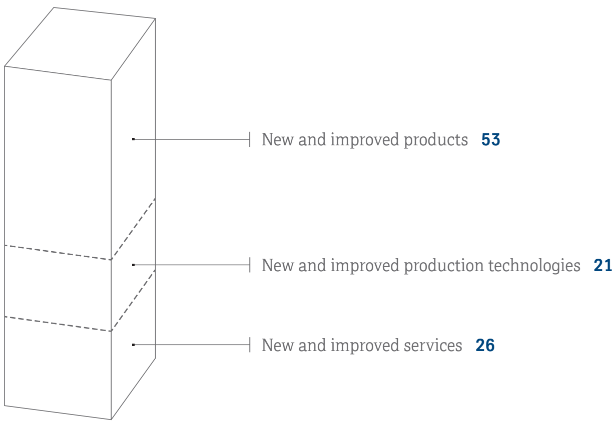
SUCCESSFUL INNOVATION CONTEST

The ThyssenKrupp Innovation Contest was held for the eighth time in 2007, attracting a major response.

There was once again a considerable response to our 2007 Innovation Contest, with 74 high-quality projects entered by experts from all the Group's segments. The contest aims to further improve the climate for innovation and promote the translation of ideas into promising products and services. Key criteria used to assess the innovations are customer value, customer retention, achievable production cost savings, degree of innovation and market potential.

The contest was launched in 2000 to underline the importance of continuous innovation activities. Over eight years to date it has attracted 353 entries and awarded prizes to 33 projects. Contributions from scientists and engineers outside Germany are growing in importance. A new Innovation Contest will be held in 2008. In recognition of the importance of environment and climate protection, resource conservation, energy efficiency and lower CO_2 emissions, a special innovation prize will be awarded for the first time this year to the best project from these areas.

INNOVATION CONTEST Entries submitted from 2000 to 2007 in %



Employees

The dedication and ideas of our 191,000 employees will shape the future competencies of our Company. Throughout the world, their personal commitment helps ensure that customers, investors and other business partners decide in favor of ThyssenKrupp. A good working atmosphere, outstanding training and education opportunities as well as performance-related compensation form the basis of their abilities and success.

EMPLOYEES BY SEGMENT

	Sept. 30, 2006	Sept. 30, 2007
Steel	38,840	39,559
Stainless	12,197	12,182
Technologies	54,757	54,762
Elevator	36,247	39,501
Services	40,163	43,012
Corporate	5,382	2,334
Group	**187,586**	**191,350**

WORKFORCE DEVELOPMENTS: GROWTH AT ELEVATOR AND SERVICES

At the end of September 2007 ThyssenKrupp had 191,350 employees worldwide.

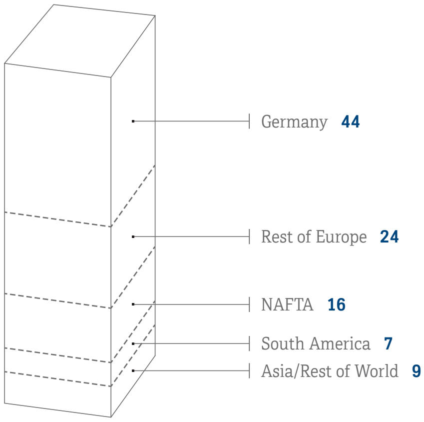
On September 30, 2007, ThyssenKrupp had 191,350 employees worldwide, an increase of 3,764 or 2% from the end of the previous fiscal year. The biggest growth was in the service-related segments Services and Elevator. In Germany, the headcount was up slightly by 1% to 84,999, representing over 44% of the total workforce

The number of employees outside Germany rose by 3% to 106,351. The expansion of our foreign activities, in particular at Services and Elevator, more than offset the decline in numbers in North and South America due to disposals. At the end of September 2007, 24% of ThyssenKrupp's employees were working in the rest of Europe outside Germany and 16% in the NAFTA region.

EMPLOYEES BY REGION

	Sept. 30, 2003	Sept. 30, 2004	Sept. 30, 2005	Sept. 30, 2006	Sept. 30, 2006
Europe	141,508	135,178	130,418	128,112	130,255
NAFTA	32,318	32,204	33,872	32,622	30,060
South America	8,707	9,846	10,474	13,618	14,168
Asia/Rest of World	7,569	9,808	11,168	13,234	16,867
World	**190,102**	**187,036**	**185,932**	**187,586**	**191,350**

EMPLOYEES BY REGION on September 30, 2007 in %



The performance and dedication of our employees are reflected in productivity. One indicator of this is sales per employee, which have risen continuously over the last five years as shown in the following graphic. The increase in 2006/2007 alone was almost 9% .

SALES PER EMPLOYEE in €

2002/2003	194,005
2003/2004	215,553
2004/2005	235,955
2005/2006	252,609
2006/2007	275,146

Personnel expense decreased by 1% in the reporting period to €9.2 billion. The following graphic shows the development of personnel expense over the past five years.

PERSONNEL EXPENSE in million €

2002/2003	9,437
2003/2004	9,465
2004/2005	8,975
2005/2006	9,306
2006/2007	9,169

SUPPORT FOR SKILLED STAFF

By tradition we attach great importance to training the skilled workers of tomorrow. We know how important good training is for the future of young people, which is why we always provide apprenticeship training beyond our own needs. In Germany alone, we have almost 200 full-time trainers and numerous training officers helping to give 4,293 apprentices a successful start to their careers.

We offer training in around 70 occupations, mainly industrial apprenticeships. The most popular of these in 2006/2007 was the industrial mechanic apprenticeship, which attracted more than 1,100 young people. At 5.6%, our apprenticeship training rate, i.e. the ratio of the number of apprentices to the overall workforce, showed a further improvement on last year's high level.

ThyssenKrupp continues to participate in the training pact between government and industry. In 2006/2007 alone we created more than 200 additional apprenticeship places and offered numerous initial training placements. Our efforts have been worth it: more than 60% of the young people who have so far completed an initial training placement were subsequently offered an apprenticeship contract. This success would not have been possible without the intensive specialist and educational support provided by our trainers.

Advanced training promotes motivation and skills

The high training rate shows that employees' skills are very important to us.

In the reporting year, more than 90,000 people took part in work-related advanced training courses and seminars. Key areas included quality management, data systems and management training. With many employees participating in more than one course, our advanced training rate was high at over 120%. Further intensive training measures were provided at our foreign branches and operations. The courses, seminars and other events offer significant advantages to companies and employees alike. Our employees gain new perspectives for the future and are better motivated and qualified for their work in the company.

Outstanding health and safety

We continue to maintain a high level of health and safety at work. In the year under review, there were only 11.3 reportable accidents per 1 million hours worked at our German companies. That represents a decrease of a third compared with 2001/2002, when there were still 17.1 accidents per 1 million hours worked. Our activities to improve occupational health and safety are now paying dividends. We expect a similarly encouraging reduction outside Germany as our health and safety measures have been adopted by foreign subsidiaries in a cross-segment and cross-country exchange of experience.

Despite the high standards achieved, we will continue to work hard to reduce accident numbers even further. The Groupwide initiative launched in 2005 under the name “Company target: zero accidents” has spawned new activities to further enhance health and safety at work. One key area is a broad-based management training program. Over a period of three to five years, all managers will attend health and safety seminars which we offer in conjunction with the Employers' Liability Insurance Associations (Berufsgenossenschaften). These seminars were attended by 1,700 managers – from foremen to board members – in the first year of the program.

Worldwide social responsibility

ThyssenKrupp takes a socially responsible approach to its employees around the world and observes national labor law standards. We attach particular importance to the principle of equal opportunity and to the diversity of people and cultures at our worldwide locations. We regard preventive healthcare measures, safety at work and healthy working conditions as key management duties.

At ThyssenKrupp we do not tolerate discrimination against members of the workforce and take decisive action if the need arises. This clear stance, anchored in an agreement with the Group Works Council and the European Works Council and widely communicated, is one reason why work in our companies is characterized by tolerance and mutual respect.

Universities and graduates

Our university marketing efforts have one aim – to secure highly qualified young talent for leadership positions in the Group.

As a forward-looking company we are constantly on the lookout for talented and qualified employees for a wide variety of specialist and management duties. In the competition for the best young graduates, we have stepped up our university marketing activities. Engineers in particular see us as an attractive employer. We also have a tradition of cooperation with German and foreign universities. All of these activities will be continued and expanded.

In these collaborations we promote a stronger exchange of knowledge in education and teaching, realize joint projects in the areas of technology and innovation, and provide support for highly talented students. Activities range from workshops, excursions and joint projects through to fellowships and prizes such as the "ThyssenKrupp Student Award". For the first time we organized career days and trainee days throughout the Group.

Our university marketing activities also focus on selected target groups who are expected to perform particularly well after completion of their education. These include senior high school students who intend to take up a degree course, competitive athletes at university and talented female students who have already started on engineering and science degree courses. At the TU Berlin, ThyssenKrupp cooperates with the university careers center for women "femtec" with a view to recruiting more women specialists and managers to technical professions.

Our efforts to attract young talent are rounded out by the ThyssenKrupp study support program. In addition to financial support and interdisciplinary seminars, the accompanying mentoring program has proved important for students. The mentors are experienced executives who support students on the program with individual advice on personal and career development.

NEW DIRECTION: THYSSENKRUPP PERSPACTIVE LAUNCHED

Given our strategy of expansion and the increasing internationalization of our business, outstanding executives are of more importance than ever to our Group. In the past fiscal year we intensified our efforts to develop our present and potential managers and to attract new executives.

In summer 2006, a Groupwide “Management Development Initiative” was launched to analyze the existing instruments, processes and structures of management development and develop a concept for a viable “ThyssenKrupp management development model”. In March 2007, this model was presented to the Group’s top managers at the annual management forum under the heading “ThyssenKrupp PerspActive”.

Management development as a management task

We further developed and added to our management development processes and tools.

The name ThyssenKrupp PerspActive reflects the fact that it concerns the perspectives of individuals and the Company and that realizing these perspectives requires initiative and action by individuals and the Company as a whole. ThyssenKrupp PerspActive is guided by the principle that sustainable management development requires a common philosophy, i.e. a clear understanding of an individual’s performance, potential and management competencies as well as the requirements made on positions in the Group. Furthermore, management development processes in the Group should be systematized and standardized in just the same way as, for example, our financial management.

Our management development tools and processes have been developed further on the premise that 90% of management development should take place on the job, that management development is a priority management task, and that managers must also accept responsibility for their own development. Our competency model has been revised and expanded in particular to include the aspect of employee and management development. Based on this extended management competency model we have initiated a new assessment and development process for this level.

Search for talent stepped up

ThyssenKrupp is intensifying its efforts in the competition to attract the best young talents. Our internet career portal has been revised and a new applicant management system installed which speeds up selection and decision processes for both us and the applicants. On the one hand we are looking for employees who have already gained experience in their specialist area and who would like to apply these skills to a wider area of responsibility at ThyssenKrupp. But in the future our search for talent will also focus more strongly on the ability of applicants to take on new duties flexibly. In addition, our executives will be more actively involved in the selection of senior and junior managers, in keeping with the principle of ThyssenKrupp PerspActive that the search for talent and management development are management tasks.

THYSSENKRUPP ACADEMY ALIGNED TO STRATEGIC REQUIREMENTS

The ThyssenKrupp Academy has made a successful start with numerous programs.

The ThyssenKrupp Academy opened at the start of 2006/2007 as a Groupwide management academy for executive development. In its first year more than 500 executives took part in its programs. A total of 22 programs were carried out for top management.

The programs and courses are aligned to the Company's requirements and strategy. The main objective of the Academy's Management School is to impart and build knowledge, but it also offers participants an opportunity to network with colleagues to the benefit of their business. The one-week general management program "Breaking New Grounds" was developed for top executives in collaboration with the Harvard Business School. Executive managers can take part in the "Creating Growth Strategies that Work" program, developed in conjunction with the European School of Management and Technology (ESMT). The seminar "Leading for Growth and Continuity" is designed to help senior managers reflect on their own management style and their underlying understanding of management.

The "Competence Forum" comprises specialist conferences aimed at providing impetus which can be taken up in the Group to develop further solutions. One successful example is the Mobility Competence Forum, attended by more than 100 of our top executives. In the "Impact Workouts", the ThyssenKrupp Academy has started to develop its own case studies based on past decision-making situations of major importance for ThyssenKrupp.

COMPENSATION SYSTEMS BOOST MOTIVATION

Performance and success-oriented compensation systems are an important prerequisite for qualified and motivated employees and executives. Our Group companies in all countries have attractive compensation systems based on the customary local regulations and the wishes of the workforces. In Germany, for example, in addition to a fixed salary, which is subject to the provisions of collective or individual employment contracts, and regular vacation and Christmas bonuses, we also pay special annual bonuses to reflect outstanding business results. Many employees in Germany also had the opportunity for the first time to acquire company cars, with payments offset against their salaries.

In addition, in spring 2007 some 82,000 employees at German Group companies had the opportunity to buy ThyssenKrupp shares on favorable terms up to a total value of €270 under the ThyssenKrupp employee share program. National programs have now also been carried out in France, Spain and the United Kingdom.

Our executive compensation policy utilizes earnings- and share price-oriented instruments. The Mid Term Incentive Plan (MTI) launched in 2003 was issued for the fifth time in the reporting year. The development of the stock rights issued under this plan is based on the share price and ThyssenKrupp Value Added (TKVA). The discounted share purchase program introduced in fiscal 2005/2006 for executives who are not included in the MTI met with a very positive response and was repeated in the year under review. Under this model, beneficiaries can purchase ThyssenKrupp shares at a specific discount, the amount of which depends on the development of TKVA.

Risk report

Increasing the value of the company, securing its existence and countering individual risks appropriately – these are the tasks of our risk management system. In the reporting year, all risks were contained and manageable. The future existence of the company is secured.

EFFICIENT ORGANIZATION OF RISK MANAGEMENT

Risk policy

As part of corporate strategy our risk policy is directed at systematically and continuously increasing the value of the company. The existence of the company has to be secured. In addition, the name and reputation of the Group and the "ThyssenKrupp" brand are of key importance for the Group.

Manageable risks are taken when they are expected to produce an appropriate increase in value.

The particular risk strategy applied always begins with an evaluation of the risks and the opportunities associated with them. In the Group's core competency areas we consciously take on reasonable, manageable and controllable risks if they are expected to deliver an appropriate increase in value. Risks in processes which support our core activities are transferred – where economically appropriate – to other risk carriers. Risks not connected with core and/or support processes are not accepted. Overall the aggregate risk volume must not exceed the risk coverage potential available at ThyssenKrupp AG.

ThyssenKrupp has set out rules for dealing with risks in Group policies and guidance notes. Numerous training and monitoring programs ensure these rules are observed. Speculative transactions or other measures of a speculative nature are inadmissible. Conduct towards suppliers, customers and society must be fair and responsible at all times.

Risk management system has proven itself

The risk management system installed by the Executive Board of ThyssenKrupp AG has proven itself to be efficient. All employees of the Group must consider the possible risks of their actions. Direct responsibility for early identification and management of risks and for communicating them to the next reporting level lies with the operating managers. The next organization level up in each case is responsible for risk control.

Within the framework of risk inventories the occurrence, status and significant changes of major risks are reported by the Group companies using tiered threshold values. The segments inform the Executive Board of ThyssenKrupp AG about the current risk situation on a bi-weekly basis. In addition, risks occurring at short notice and urgent risks with an impact on the entire Group are communicated directly to ThyssenKrupp AG outside the normal reporting channels.

Once again in 2006/2007 Corporate Internal Auditing examined whether the Group companies in Germany and abroad are observing the rules of the risk management system. The findings made helped further improve the early identification and management of risks. In addition we have continuously enhanced the tools for identifying and managing risks in the Group.

Risk transfer to insurers

As central service provider, ThyssenKrupp Risk and Insurance Services GmbH in consultation with the Executive Board of ThyssenKrupp AG handled the transfer of risks to insurers through the conclusion of Group insurance policies. To counter the risk from increased deductibles the Group regularly prepared and evaluated loss analyses. Under property and business interruption policies significant deductibles exist for some production units of the Steel and Stainless segments. There is a risk that one or more claims on these policies could materially impair the Group's assets, liabilities, financial position and results of operations.

Several working groups have developed joint binding standards for risk prevention. Compliance with the standards as part of a property insurance risk management system was monitored regularly by internal and external audits.

CENTRAL RISK AREAS

Financial risks

Central responsibilities of ThyssenKrupp AG include resource allocation and securing the financial independence of the Group: in this connection ThyssenKrupp AG also optimizes Group financing and controls financial risks.

As in previous years, the procurement of funds in 2006/2007 was effected on the international money and capital markets in different currencies – predominantly in euros and US dollars – and with various maturities. The resulting financial liabilities and our financial investments are partially exposed to risks from changing interest rates. To manage these risks, regular interest rate risk analyses are prepared. The regular communication of the results of the interest rate analyses is part of our risk management system.

Groupwide policies are in place for our centrally organized foreign currency management system.

To contain the risks of the numerous payment flows in different currencies – in particular in US dollars – Groupwide regulations exist for the centrally organized foreign currency management of the ThyssenKrupp Group. All companies of the ThyssenKrupp Group are required to hedge foreign currency positions at the time of their inception.

Among other things, derivative financial instruments are used to hedge the risks. The Group's centralized foreign currency management, centralized management of interest rate risks as well as hedging against commodity price risks are described in detail in Note 29 on pages 176–181.

Translation risks arising from the conversion of foreign currency positions are generally not hedged.

Risks associated with disposals and restructurings

Transaction risks may arise from the disposal of real estate, companies or other business activities and from restructuring programs in the Group. Where the occurrence of the particular risk is at least probable, adequate provision has been made in the balance sheet.

Risks associated with information security

The information technologies used in the Group are continually reviewed and updated to guarantee secure handling of IT-supported business processes. In addition, we continually enhance our information security measures and systems; in this way we eliminate or at least contain the risks associated with IT-based integration in business processes between Group companies and with customers, suppliers and other business partners.

Risks associated with pension and healthcare obligations

The fund assets used to finance pension liabilities are exposed to capital market risks. Pension obligations are subject to risks from increased life expectancies of beneficiaries and from obligations to adjust pension amounts on a regular basis. In addition, the cost of healthcare obligations in the USA and Canada may increase. Furthermore, in some countries there is a risk of significantly higher payments having to be made to finance pension plans in the future due to stricter statutory requirements.

Legal risks

A report on pending litigation and claims for damages can be found in Note 28 on page 175.

Environmental risks

Risks from past pollution and mining subsidence are countered by preventive measures and rehabilitation.

Some of our real estate is subject to risks from past pollution and mining subsidence. These risks are managed by preventive measures and scheduled remediation work. Adequate liabilities were recognized in 2006/2007 if the corresponding measures were not carried out during the reporting year.

The demands on environmental protection and resource conservation have also risen in other areas. We take extensive measures to minimize environmental impact. This includes the use of modern facilities which are environment-friendly and also reduce charges and energy costs. In addition, the increasing number of Group companies with certified environmental management systems has reduced the risk of environmental risks occurring. More details on environmental protection at ThyssenKrupp are provided on pages 75–76.

Procurement and selling risks

Movements in steel prices and developments in the auto industry can have a significant impact on the performance of the Group. However, the broad product and geographic spread of our business portfolio has a stabilizing effect.

In the electricity and gas markets the Group is affected by rising prices. A structured procurement policy on the electricity market and the conclusion/continuation of long-term natural gas contracts help limit risks.

Personnel risks

ThyssenKrupp attaches central importance to securing and strengthening the skills and commitment of its staff and managers. That is why we continued to position ourselves as an attractive employer and promote the long-term retention of executive staff in the past fiscal year. Systematic management development includes offering executives career prospects and attractive incentive systems. It also includes targeted mentoring to promote identification with the company at an early stage. You can read more on these subjects on pages 111–112.

GENERAL ECONOMIC RISKS

We expect the world economy to continue to grow in the next two years. We forecast growth of 5.2% in 2007 and just under 5% in 2008. The growth trend should also continue after 2008, but at a slower pace. These forecasts are based on a series of assumptions. In particular it is assumed that the geopolitical and economic situation will remain largely stable. This includes stable capital, currency and raw material markets.

A weaker US economy would also jeopardize growth in other world regions.

Risks to global growth may result from the liquidity bottlenecks triggered by the US real estate crisis. Weaker spending by US consumers would impact the growth prospects of the US economy and dampen international trade. A weakening of the US economy would have negative effects on economic growth in the rest of the world.

In the medium term we expect the US dollar/euro exchange rate to stabilize. This forecast assumes among other things that the policy of the central banks will not lead to a further reduction in the interest rate differences between the USA and the euro zone. Interest rate and exchange rate risks would also ensue if the capital markets were to significantly change their positive attitude towards the financeability of the US trade deficit. A depreciation of the US dollar versus the euro would have negative consequences for the competitiveness of businesses producing in the euro zone.

We believe that raw material and oil prices will stay at a high level. We expect supplies of energy and other raw materials to remain secure. However, a significant rise in oil prices in particular could increase the economic risks and slow global economic growth. Protectionist measures could impair the availability of raw materials on the international markets.

DECENTRALIZED MANAGEMENT OF SEGMENT-SPECIFIC RISKS

In the Steel segment, market risks exist regarding the development of selling prices and volumes. Disproportionately rising raw material, freight and energy prices represent risks on the cost side which cannot be fully offset by using alternative procurement sources or passing on price increases. Developments and influencing factors are therefore permanently monitored to allow the early introduction of mechanisms to alleviate the effects. In addition, possible losses within the deductibles agreed with insurers could have a negative impact on our operations even though organizational and technical measures – e.g. preventive maintenance – are being carried out on a permanent basis to counter this. Despite hedging of all transactions denominated in foreign currency, exchange rate variations may also result in risks.

As a result of the new strategic positioning of the Steel segment with the construction of a steel mill in Brazil and the installation of new capacities in the NAFTA region we see only minor local risks in North America with regard to successful market entry from 2010.

Steel overcapacity in China could lead to imbalance on the world markets in the future.

There remains a general, global risk that overcapacities will be created in the coming years, especially in China, which will lead to an imbalance on the world markets and could disrupt the price structure. In such a scenario, the profitability of the Steel segment and of competitors could drop sharply. We are therefore monitoring developments in Asia closely and will move early to introduce corresponding measures.

The segment counters the risks associated with steel industry cycles through cost optimization, prompt production adjustments and a concentration on high-end market segments subject to less cyclicality. Quality and delivery risks are minimized by constant optimization of the value chain.

Despite the Groupwide emissions trading strategy, the segment may face volume and price risks in connection with emission allowances in the second trading period from 2008 to 2012.

In addition to the usual cyclical risks the Stainless segment faces risks associated with the way the markets respond to existing or anticipated overcapacities at stainless producers in Asia. The supply and demand situation in China in particular represents a risk.

Stainless is countering the risks in the market by extending its value chain towards the higher-margin end-customer business, intensifying its customer relationships through local service offerings and further improving its quality and delivery performance. We are countering increasing competitive pressure by developing new applications for stainless steels and nickel alloys, by developing innovative products made from these materials and by using modern, cost-saving process technologies.

The risks associated with the availability and prices of raw materials, particularly nickel, chromium and alloyed scrap, are minimized by corresponding contracts and hedging mechanisms.

In the Technologies segment, the Plant Technology and Marine Systems business units manage the risks associated with long-term contracts and technological innovations through close project controls and increased use of project management measures. Notwithstanding these, the increasing complexity of contracts can result in unplanned earnings impacts in individual cases. In the past fiscal year this risk became acute in the construction of mega yachts. We are working to offset the earnings impacts through the swift implementation of efficiency measures and organizational improvements. At the same time processes are being optimized with the aim of substantially improving earnings. In the civilian shipbuilding sector competitive disadvantages versus Asian competitors are to be offset by a concentration on niche markets and by action programs to improve performance and reduce costs.

Our automotive operations, concentrated in the business units Mechanical Components and Automotive Solutions, continue to face a variety of risks. Rising steel prices, which experience shows cannot be passed on to customers in full, represent a major risk to earnings. Extensive cost reduction programs are being implemented to offset rising cost pressure on the procurement side and increasing price pressure from auto manufacturers on the selling side.

Falling demand in traditional markets is being countered by new activities in growth regions like India and China.

We are countering the risk associated with falling demand in our traditional markets by building or expanding production capacities in growth regions such as India and China. This includes the planned construction of a crankshaft factory in China. In the field of production equipment for the auto industry, extensive restructuring measures and capacity adjustments are needed to counter market-related and structural problems.

In the Transrapid business unit, a concrete follow-up project for the line in Shanghai and the trialing of an already delivered prototype vehicle under the further development program are expected to further reduce the existing market risk. In addition there is the prospect of the realization of the Munich project following clarification of the financing situation.

In individual business areas earnings may be impacted by the need for further restructuring measures. In addition, exchange rate movements again impacted sales and earnings in the past fiscal year, for example in the case of US dollar-denominated deliveries from Brazil to the USA.

In the Elevator segment, risks are mainly determined by the different activities in the elevator and escalator businesses and by their regional spread.

The new installations business is closely linked with activity in the building industry and can therefore be subject to volatility. The use of project management measures helps contain risks in the processing of major projects. We are countering rising material prices, which cannot be passed on to customers in all regions, through continuous efficiency improvements in production and by ongoing optimization of purchasing.

The service and modernization business is comparatively unaffected by cyclical developments. We counter the risks associated with the loss of maintenance units through high service quality and customer retention strategies. Local branch offices and a close-knit service network help increase efficiency, for example through lower costs for trips to customers.

The segment's global presence provides an internal risk balancing mechanism as individual markets move through different growth cycles. The resultant impact of exchange rates is limited by financial hedges and by the fact that sales and costs in the respective currency areas are largely congruent.

A global presence, broad customer base and high level of diversification reduce risks in materials services.

The Services segment is mainly engaged in materials trading and services. It counters the associated risks with an extensive action program. This includes in particular the systematic improvement of logistics and logistics management tools, especially the expansion of the centralized warehousing concept to optimize inventories. At the same time, expanding the service business, which is independent of material prices, will make the segment less sensitive to cyclical price movements. General economic risks are reduced by the segment's worldwide presence, broad customer base and high degree of diversification. The resultant wide spread of risks also applies to the bad debt risk, which is additionally limited by the use of hedging instruments.

The measures taken by Services to minimize risks associated with exchange rate fluctuations or raw material price changes comply fully with the policy for commodity hedges.

The Industrial Services unit faces risks from competition and price pressure. We counter these by means of continuous capacity adjustments and new sector- and customer-specific service offerings and sales initiatives. Adequate provision has been made to cover risks associated with strategic decisions. Risks from the final completion of projects are managed by ongoing project controls.

Corporate faces risks from the past industrial use of real estate. Potential risks in the construction of the ThyssenKrupp Quarter in Essen are systematically identified and efficiently managed by a project control system to minimize time, cost and liability risks. A dedicated project compliance unit guarantees maximum transparency with regard to adherence to standards.

NO THREAT TO EXISTENCE OF COMPANY

In the overall analysis of Group risks, the most important are risks associated with major contracts and markets. As well as cyclical price and volume developments we are also dependent on the performance of major customers and industries. Business risks associated with the handling of orders are well managed and therefore contained. Overall, the risks in the Group are manageable and there is no threat to the existence of the Company.

Subsequent events, opportunities and outlook

World economic growth will continue at a slightly slower pace. Despite increasing economic risks, we expect ThyssenKrupp to maintain its positive performance. In fiscal year 2007/2008 we aim to achieve sales of around €53 billion. For earnings before taxes and major nonrecurring items, our target is upwards of €3 billion.

SUBSEQUENT EVENTS

There were no significant events requiring disclosure after the balance sheet date.

FOCUS OF THE GROUP IN THE NEXT TWO FISCAL YEARS

The strengths of ThyssenKrupp lie in Steel, Capital Goods and Services.

ThyssenKrupp will remain focused on the three business areas Steel, Capital Goods and Services. This is where we see our global strengths, based on competitive products, strong manufacturing expertise, outstanding employees and excellent contacts with our customers. The share of services in sales will increase in all segments, because beyond the products themselves, customers increasingly require advice and services at local level. The internationalization of our business activities will continue to increase in line with the longtime trend. ThyssenKrupp is a global company with a strong position on its home market in Europe.

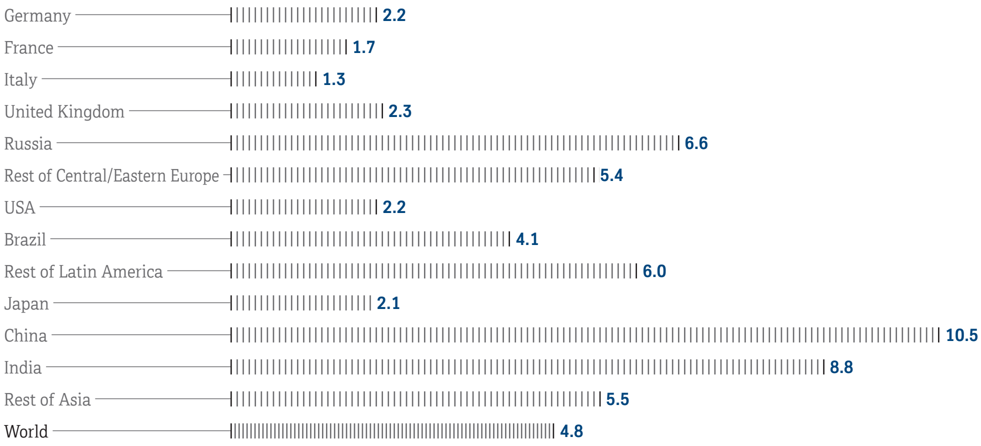
Global growth to continue

Global growth will remain robust. However, growth in global GDP is expected to slow from 5.2% in 2007 to just under 5% in 2008. World economic growth will continue thereafter, albeit at a slower pace. The risks to global growth have increased as a result of the uncertainties triggered by the US real estate crisis, the rise in interest rates worldwide and the raw material price trend.

In the euro zone the economic upswing is expected to continue at a slightly slower rate in 2008. Investment in particular will slow from its current very high level. A similar situation is expected in Germany. In addition, we forecast slightly weaker growth impetus from exports. By contrast, the situation on the labor market is expected to have a positive impact, helping increase private consumption especially in Germany.

In the USA the difficult situation on the housing market will dampen private consumption. However, improved exports should lead to a moderate acceleration in growth in 2008. In Japan, moderate growth in line with 2007 is expected in 2008.

GROSS DOMESTIC PRODUCT 2008* change compared to previous year in %



* Forecast

In 2008 we expect the strongest economic growth in Asia and in Central and Eastern Europe.

The developing countries in Asia as well as Central and Eastern Europe will continue to be growth hubs in 2008. The dynamic expansion in China will continue. Strong investment, increasing consumption and high exports will generate double-digit economic growth. With domestic demand strong, the Indian economy will also maintain its high expansion rate in 2008. Most countries of Central and Eastern Europe are also expected to maintain their momentum. Russia will profit from the continued boom in raw materials.

Pleasing prospects in key sales markets

We expect a predominantly favorable trend on the customer markets of importance to ThyssenKrupp.

Our assessment of the outlook for the global steel market remains favorable. In particular demand from China, India and the CIS states will continue to increase at above-average rates in the next few years. Growth is also forecast for the other regions. World demand for rolled steel will be just under 7% higher, corresponding to a rise in crude steel production to over 1.4 billion tons. A further increase in raw materials and energy requirements is expected to impact the cost of steel production. The European steel industry expects the steel market to stabilize at a high level in 2008. In view of the existing inventory surpluses, demand is likely to slow with a corresponding impact on output at the beginning of the 2007/2008 fiscal year. One factor causing uncertainty is the future development of third-country imports into the EU. If the Chinese government's measures to control exports take hold, the situation could start to ease.

In the stainless market, inventory levels at distributors and service centers remain slightly excessive at the beginning of fiscal 2007/2008 but are beginning to fall. We therefore expect orders from distributors and service centers to pick up in the first quarter of the fiscal year. However, the producers' order books are currently still at such a low level that capacity cutbacks can be expected again this quarter. Provided the prices of raw materials and in particular nickel are less volatile, order intake and shipments are expected to return to normal in the course of the fiscal year.

The global automotive industry remains on an upward trend. World auto production is expected to increase by around 3% to 74.7 million vehicles in 2008. Growth will be focused on China, India and the countries of Central and Eastern Europe. In the NAFTA region, auto production is expected to pick up again slightly after the decline in 2007. The Western European OEMs will not quite match the prior-year output figures. German production of cars and trucks is forecast to fall just short of the 6 million mark.

World growth in the mechanical engineering sector could weaken in 2008.

In the mechanical engineering sector, there are signs of cooling in some regions for 2008. While unbroken investment growth continues to drive the rapid expansion in China, the weakening of investment in the industrialized countries will lead to a distinct slowdown. Growth rates in Western Europe are therefore expected to be more than halved. 6% growth is forecast for the German mechanical engineering sector. Backed by the good order situation, the positive performance of the large-scale plant construction sector is set to continue.

In the construction sector, the countries of Asia and Central and Eastern Europe will continue to report the strongest growth. In the USA, the weakness of the real estate market will result in another slight decrease in construction output in 2008. For the German construction sector we expect only slight growth because the positive impetus from the commercial building sector is slackening.

OPPORTUNITIES: STRATEGY OF GROWTH

Thanks to our internationally oriented strategic positioning, we see good opportunities for taking ThyssenKrupp to a new dimension in the coming years. As well as an increase in sales, this will require qualitative growth combining sustained earning power and high productivity with a strengthening of our technological lead in many of our product areas. By expanding our expertise in products and processes, we can systematically raise the company's profile in highly demanding markets. This is true of all product areas in which our five segments are among the leading players – be it innovative naval shipbuilding, new materials or global industrial services.

Opportunity management system at all levels

At all levels of the Group we actively identify and exploit opportunities for the company. In line with the customer-focused organization of ThyssenKrupp, opportunities identified are principally utilized directly by our segments operating on the market. The Group holding company provides the strategic framework and secures the financing and liquidity of the segments. The individual plans are fed into the Group's overall opportunity-based strategic concept which describes the future roadmap of ThyssenKrupp. For more information on opportunities, strategic targets and development lines, please refer to the section on strategy on pages 52–54.

Opportunity management also includes the wide range of measures designed to enhance the performance of the Group as a whole through systematic internal efforts. Our continuous improvement process, which has been implemented under the ThyssenKrupp best program for the past six years, will continue to enhance our capabilities and increase the value of the company on a sustained basis in the future. More information is provided on pages 59–60.

Opportunities in all segments

The Steel segment sees its opportunities mainly in the highly profitable market for high-end flat carbon steel. Intelligent material solutions, product-related processing and an extensive range of services will continue to present new opportunities for operating profitably and productively in close cooperation with customers. The high share of sales covered by long-term agreements (60%) is a clear indication of our close ties with customers. This makes the segment's revenues much more resistant to the cyclical fluctuations of the steel market – compared with the general market price level.

Major opportunities are seen in connection with the new plants being built by Steel and Stainless in Brazil and the USA.

The new mills being built in Brazil and the USA will open up new transatlantic opportunities. The integrated steel mill we are currently building in Sepetiba Bay in the state of Rio de Janeiro in Brazil has the capacity to produce 5 million tons of slab. The location also offers space for further expansion. Of the slab produced in Brazil, 3 million tons will be sent to the new plant in Mount Vernon in the US state of Alabama.

At this location the Steel and Stainless segments are building a joint complex with melting, rolling and finishing capacities. The centerpiece of the plant will be a hot strip mill which will be used by both segments. This new plant will open up new opportunities for our carbon and stainless steel products on the US market.

With its wide range of high-tech materials from stainless steel to nickel alloys to titanium, the Stainless segment aims to exploit its opportunities on the world market as a competitive materials specialist. This will involve the expansion of services, for example with a diverse range of processing operations. Stainless aims to further strengthen its presence close to customers by optimizing its global network of sales and service centers. Intensified activities on the attractive NAFTA market are also expected to open up new strategic opportunities.

Considerable growth opportunities are available to the Technologies segment in the mining and processing of raw materials, as strong demand is forecast for the coming years. The segment provides sophisticated solutions for a wide range of applications, including oil sands mining, innovative refinery processes, coal gasification and CO_2-free power plants. Another key product are our large-diameter antifriction bearings which are used in wind energy systems. Further growth potential is available in the Asian region. The rapid expansion of the infrastructure and the demand for increasing mobility offer attractive prospects for our business activities.

The Elevator segment aims to expand its current world market position on a sustained basis. An increasingly dense network of branches close to customers is designed to secure the current level of business. Growth opportunities have been identified for example in Asia, where Elevator expects the economic expansion to yield a wealth of new orders. The global service strategy, which ensures consistently high standards in the maintenance of elevators and escalators worldwide, also holds good prospects.

For Services, the opportunities lie in continued international growth, in particular in Eastern Europe, North America and Asia, and also in the further expansion and integration of the segment's services. The segment focuses systematically on materials and industrial services and the supply of raw materials for manufacturing and processing companies. Beyond the supply of materials, the spectrum of services includes processing, warehouse and inventory management, and complex global supply chain management solutions, for example for the aerospace industry. The range is supplemented by various production support services and innovative technical system solutions. The segment is increasingly profiting from the trend among customers to outsource demanding tasks to external, internationally experienced service providers.

Strong prospects offered by globalization

All our segments will further increase the international alignment of their activities in the future. As a technology-based Group, we want to participate in the development of the emerging states in South America, Asia and Europe and support them in building infrastructure. Energy, the environment, mobility – these are areas in which we see major opportunities for contributing to the development of these regions with high-performance materials, innovative components and complete systems solutions.

Climate protection as a market opportunity

ThyssenKrupp offers diverse products and services for efficient climate protection.

On account of the increasing importance of climate protection, the Group is preparing an "Energy, Climate, Innovation" initiative to exploit synergy potential within the Group for reducing our own emissions and developing new marketable products for lowering greenhouse gas emissions in the interests of the environment. With our products we are well positioned in the area of climate protection which will be a major issue in the future.

Tax opportunities

The 2008 corporate tax reform will have a positive impact on ThyssenKrupp AG's taxation from 2007/2008. In conjunction with the other measures introduced, the planned reduction of corporate tax will lower the nominal tax burden in the corporate and trade tax group of ThyssenKrupp AG from 39.4% to around 31% of the domestic profit achieved by this group. The newly introduced limitation of interest deduction is not expected to apply owing to the good level of earnings we expect to achieve on the domestic market. In other European countries in which the Group generates pleasing levels of income, tax rate reductions have also been resolved (e.g. Spain and the Netherlands) or are under discussion (e.g. Italy). As a result, the Group's overall tax rate will decrease considerably with effect from 2007/2008.

EARNINGS SITUATION EXPECTED TO REMAIN POSITIVE

If the economic forecasts prove accurate, we anticipate a continued positive performance overall in 2007/2008 and 2008/2009. Risks may arise from the development of exchange rates, in particular the euro/US dollar parity, as well as energy and raw material costs.

Sales: We currently expect sales in the current fiscal year to be in the region of €53 billion. The forecast for the individual segments is as follows:

- **Steel** – higher sales resulting from growth in shipments coupled with higher prices, also including rising prices for energy and raw materials.

- **Stainless** – slightly lower sales due mainly to an anticipated decline in prices. Planned volume- and structure-related improvements cannot fully offset this.

- **Technologies** – sales growth in all business units, based mainly on the planned clearing of the high order backlog in project business.

- **Elevator** – increased sales in all business units, secured by a sufficiently high order backlog.

- **Services –** sales at the high level of the previous year. The anticipated lower price level in stainless steel and nonferrous metals will be offset by a business expansion in all business units.

For 2008/2009 we expect sales to remain positive provided no unforeseen economic downturn impacts our business.

Our mid-term sales target is €60 billion. In the longer term, especially after completion of the major investments of Steel and Stainless in North America and those of the other segments in other regions, our sales target is in the region of €65 billion.

Our sales targets are €60 billion mid-term and around €65 billion in the long term.

Earnings and dividend: For 2007/2008 we plan to achieve earnings before taxes and major nonrecurring items of over €3 billion.

For 2008/2009 we expect the positive sales trend to be reflected in earnings.

In the medium term our sustainable goal for earnings before taxes and major nonrecurring items is €4 billion. Over the longer term, especially after completion of the major investments of Steel and Stainless in North America and those of the other segments in other regions, our target is €4.5 billion to €5 billion.

We will continue to pay a fair dividend in line with our aim of securing dividend continuity.

Employees: On the basis of current planning we will have more than 196,000 employees at September 30, 2008, an increase of 3%. In the following fiscal year, the headcount is expected to rise by a further 2%. However, the growth in employment will take place almost exclusively outside Germany because as a result of globalization our Group is increasingly setting up production and service sites close to our customers.

We will continue to train young people in excess of our own needs to give them a solid start to their working life.

We will maintain the high standard of our apprentice training schemes. We will continue to train beyond our own requirements in the coming years to give as many young people as possible the chance to find work. The Group's total personnel expense in 2007/2008 will again be in excess of €9 billion; in the following fiscal year it could rise further.

Research and development: In the current fiscal year we will once again spend more than €800 million on the development of new products and processes and enhancement of existing ones. A further increase is planned in the following fiscal year. This demonstrates the importance of innovations for our company. To make the most effective use of the expertise available throughout the Group, we will continue to provide targeted support for cross-segment research and development activities in the form of numerous projects in 2007/2008. One example is InCar, a development project of Steel and Technologies aimed at setting up an integrative technology platform.

To further strengthen our innovation capabilities and exploit the available potential, we plan to launch a new Groupwide innovation program in 2007/2008. Based on the transfer of knowledge and experience in the Group, the program will help make more systematic use of synergies. This integrated approach is designed to enhance the effectiveness and efficiency of our research and development activities and speed up the process of transforming the talents and knowledge of our employees into innovations. Highly qualified employees are particularly important for these tasks. We will therefore recruit more employees – in particular trained engineers and scientists – for our research and development departments in 2007/2008.

Procurement: In 2007/2008 and 2008/2009 materials expense will again amount to more than 50% of sales due partly to persistently high raw material prices. In addition, the proportion of purchased products and services has increased further because we procure not only simple components but increasingly also more complex products and services from high-performance external suppliers. In view of our long-term, international supplier relationships, we do not anticipate any bottlenecks in supplies of raw materials, components, operating materials or services. With the support of our strategic supplier management system, we will identify and select the best suppliers and build long-term partnerships with them.

Further price increases for oil and gas are expected in 2007/2008.

Energy: We anticipate a further rise in the oil and natural gas price level in 2007/2008. Electricity costs are also likely to increase. In subsequent years electricity could become even more expensive as the increased costs of coal, oil, gas and emission rights take effect. As a result, the procurement costs of energy-intensive products, e.g. industrial gases for our steel plants, will increase. To counter the rising cost of natural gas, we will endeavor to continue to conclude long-term agreements and widen our access to the market. Additional costs will also be incurred because in the second period of the European emissions trading scheme (2008 – 2012) we are likely to need more emission permits than we have received.

Environmental protection: Spending on ongoing environmental protection programs is expected to total over €500 million in both fiscal 2007/2008 and fiscal 2008/2009. Most of this will go towards reducing air and water pollution. For the new plants being built in Brazil and the USA we have budgeted for significant investment in pollution control equipment. All segments will expand their recycling activities; this reduces raw material costs and protects natural resources. One key area is the reduction of greenhouse gas emissions. For this we will continue to switch to production processes and equipment using as little energy as possible in all our operations.

EXPECTED FINANCIAL AND LIQUIDITY SITUATION

At around €10.3 billion, the volume of investment approved by the Supervisory Board is significantly higher than the average level of previous years due to the investments in Brazil and the USA. For 2007/2008 we plan to invest €4.9 billion in tangible, intangible and financial assets, €3.4 billion above depreciation. ThyssenKrupp has adequate funds to finance these investments. Our ambitious investment program for the following fiscal year is also on a solid financial basis.