

## MANAGEMENT REPORT ON THE GROUP

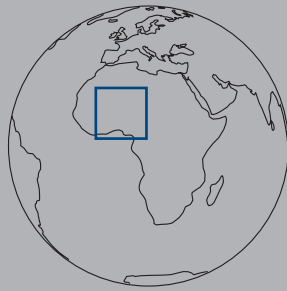
ThyssenKrupp performed excellently in fiscal 2005/2006. Pre-tax earnings rose to €2.6 billion, compared with €1.7 billion a year earlier. The success of our strategy of focusing on profitable growth is also reflected in other indicators. The following management report contains more information on the course of business in the Group and its segments, our business management, our plans and our goals.

Page 39 **Business areas and organizational structure**    Page 41 **Overview of the course of business in the Group**  
Page 55 **Course of business in the segments**    Page 73 **Innovations**    Page 77 **Employees**  
Page 82 **Financial position**    Page 87 **Business management – goals and strategy**    Page 97 **Risk report**  
Page 103 **Subsequent events, opportunities and outlook**

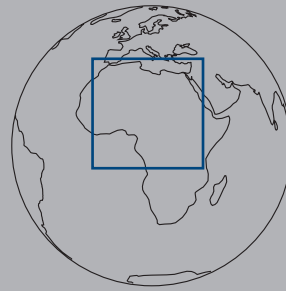
# HAVEN'T WE GOT MORE THAN ENOUGH ENERGY?



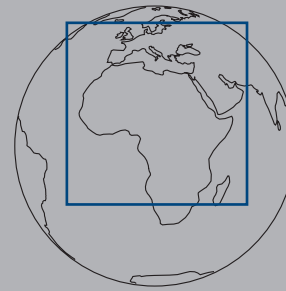
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HOW MUCH OF THE EARTH'S SURFACE WOULD WE HAVE TO COVER WITH SOLAR PANELS TO COVER THE ANNUAL ENERGY REQUIREMENTS OF THE WHOLE WORLD?

## BUSINESS AREAS AND ORGANIZATIONAL STRUCTURE

Capabilities, organizational structure and management responsibilities are key elements in the success of ThyssenKrupp. They are subject to continual review and adjusted where necessary to meet current requirements. Thus in summer 2006 the decision was made to integrate the Automotive operations in a reorganized Technologies segment.

### CAPABILITIES

ThyssenKrupp is a global group engaged in the areas of Steel, Capital Goods and Services. Our 188,000 employees in over 70 countries develop and supply innovative products and services for the challenges of the future. In all segments they provide high-quality solutions to people's needs and customer requirements. Details of the capabilities of the segments can be found on pages 55-72.

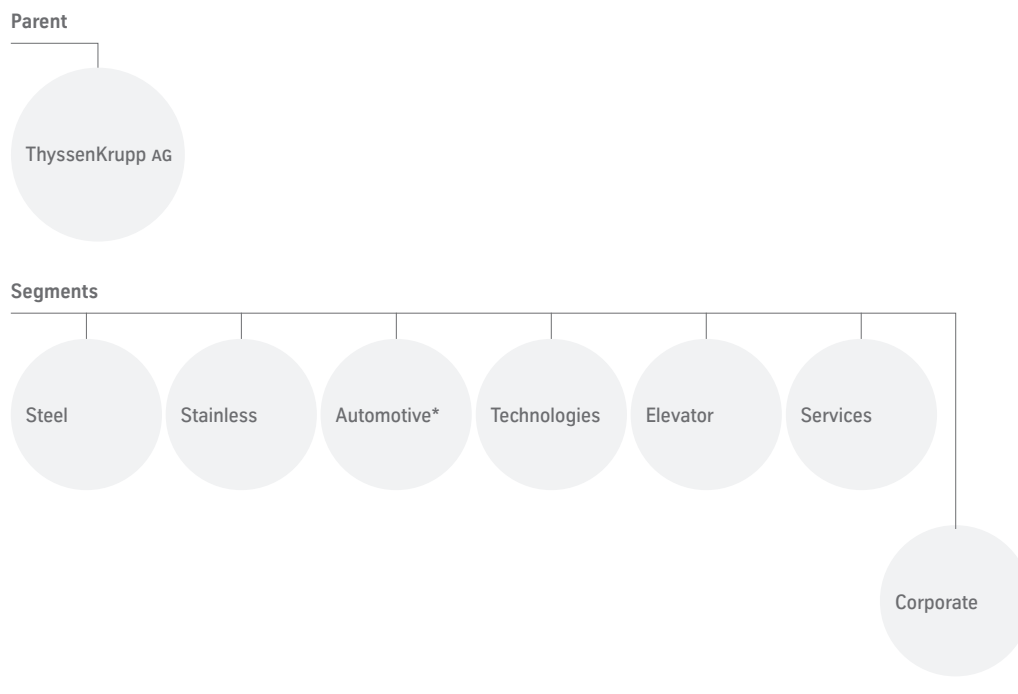
### ORGANIZATIONAL STRUCTURE

The ThyssenKrupp Group is run on a decentralized basis so that decisions are made as close to the market as possible. The segments, each led by segment holding companies, enjoy wide-ranging independence for all their market- and customer-oriented activities. The main tasks of ThyssenKrupp AG as Group parent include corporate strategy/portfolio management, risk management and central financing.

Under its Articles of Association ThyssenKrupp AG is dual domiciled in Duisburg und Essen; most of its head office functions are located in Düsseldorf. From 2008/2009 the parent company is to relocate its offices to a new ThyssenKrupp Quarter being built in Essen. Details on the future Quarter can be found on page 89. In addition, there are Group Representative Offices in Berlin and Brussels as well as at another 31 locations throughout the world.

FROM 2008/2009, THE PARENT  
COMPANY WILL MOVE TO THE  
THYSSENKRUPP QUARTER IN ESSEN.

### Company structure



\* merged with Technologies since October 01, 2006

Founded in 1999, ThyssenKrupp AG is a stock corporation (Aktiengesellschaft) under German law. The overview on pages 191-195 shows the main companies and equity interests owned directly or indirectly by ThyssenKrupp AG. Around 700 companies with over 2,300 production sites, offices and service bases all over the world make up the ThyssenKrupp Group, two thirds of them located outside Germany. Of the almost 1,200 locations worldwide at which ThyssenKrupp is represented, more than 200 are in Germany. The largest location is Duisburg, with almost 18,000 employees.

One significant change in the organizational structure is the integration of the Automotive business into the Technologies segment effective October 01, 2006, which was resolved by the Supervisory Board of ThyssenKrupp AG on August 11, 2006. The merger of the two segments will combine important capital goods competencies and so improve our market positions. Details on this can be found in the Strategy section on pages 87-90. As the Automotive operations were still independent in 2005/2006, they are shown as a segment in the reporting for the past year. In the future the Group will consist of the five segments Steel, Stainless, Technologies, Elevator, and Services, plus the Corporate area, mainly comprising the Group's head office including intercompany services.

## MANAGEMENT RESPONSIBILITIES IN THE GROUP

AN EXECUTIVE BOARD MEMBER

IS RESPONSIBLE FOR EACH

WORLD REGION.

Like the organizational structure, the Group's management structure is continually reviewed and optimized. Since the merger we have always followed the principle that the chief executives of the segments and the executive officers responsible for corporate functions should be represented on an equal footing on the Executive Board of ThyssenKrupp AG. At the same time, the Executive Board organizational chart specifies which Executive Board members are responsible for individual world regions. 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.

At all management levels our goal is to recruit the top people for the best businesses and the most important functions. We aim to achieve a productive mix of internal and external, young and experienced, German and international managers. Young executives are systematically trained to take on senior roles.

## OVERVIEW OF THE COURSE OF BUSINESS IN THE GROUP

Fiscal year 2005/2006 was the most successful in ThyssenKrupp's short history to date. We made significant progress in a friendly market environment. Order intake rose by 17% to €50.8 billion and sales by 10% to €47.1 billion. Pre-tax earnings increased to a new record level of €2.6 billion.

### GENERAL ECONOMIC CONDITIONS

The world economy remained on growth track in 2006. According to current estimates, world GDP increased by 5.2%, compared with 4.9% a year earlier. Global economic growth was therefore slightly higher than we expected a year ago. The euro–us dollar exchange rate remained largely stable. By contrast, energy and raw material prices again rose sharply.

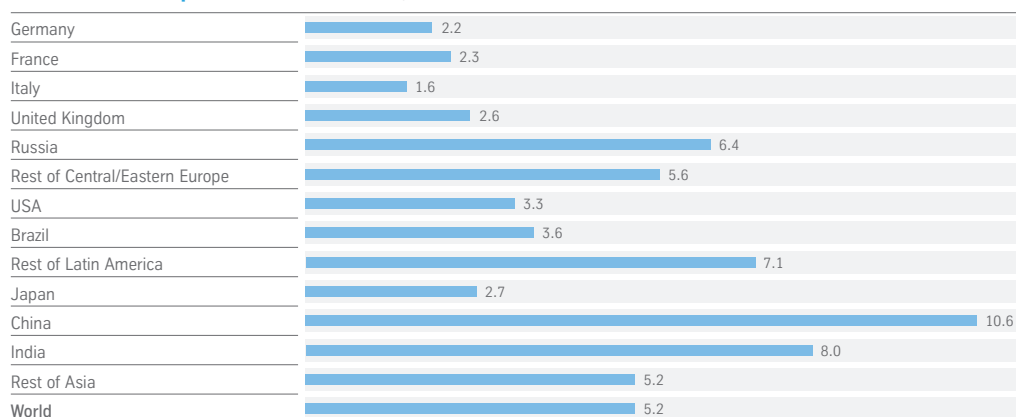
#### Strong economic growth in newly industrialized countries

Growth in 2006 was once again focused on the rapidly developing countries of Asia, Latin America, and Central and Eastern Europe. According to estimates, the Chinese economy grew by 10.6%, driven by high exports and a strong rise in investment. The other emerging economies of Southeast Asia and the countries of Latin America also achieved strong growth rates. The economic upswing in the new EU member states and Russia likewise continued unabated.

The general economic conditions also remained favorable in the developed industrial nations. In Japan, the moderate upward trend continued thanks to an increase in domestic demand. By contrast, the us economy slowed slightly over the course of the year. Consumer spending was hit by higher interest rates, rising gasoline prices and signs of weakening in the property sector.

ASIA, LATIN AMERICA, CENTRAL  
AND EASTERN EUROPE ARE THE  
MAIN CENTERS OF GROWTH.

#### Gross domestic product 2006\* Real change versus previous year in %



\* Estimate

In the euro zone, the economy recovered noticeably, with growth of 2.5% forecast for the full year. The German economy also expanded by just over 2% as domestic demand picked up. The strongest growth impetus came from capital investment, while the improvement in private consumption was less pronounced.

## ECONOMIC CONDITIONS IN THE SECTORS

Economic activity picked up globally in all important customer sectors. This is true both of demand for carbon and stainless steel, which is at a high level, and for the auto, mechanical engineering and construction sectors. However, the scale of the upswing differed from region to region; once again the Asian countries accounted for a disproportionate share of growth.

### Strong demand for carbon and stainless steel

GERMAN CRUDE STEEL PRODUCTION  
INCREASED TO 46.5 MILLION METRIC  
TONS IN 2006.

The international steel markets were characterized by expanding volumes and rising prices for most products. According to estimates, world crude steel output was over 1.23 billion metric tons in 2006. A significant proportion of this 8% increase was attributable to China, where production grew by 18% to 415 million tons. As growth in domestic demand failed to keep pace, China for the first time became a net exporter of steel. Production growth was also extremely strong in India. In the European Union, crude steel output was up by around 5% in 2006. Above all the Eastern European countries, which in the previous year had made significant cutbacks, once again reported higher output. Initial estimates put German crude steel production at 46.5 million tons, an increase of 4%. Most mills were operating at full capacity.

In Western Europe, the cyclical increase in steel consumption and accompanying build-up of stocks resulted in a strong rise in demand for carbon steel flat products. Western European producers recorded significantly higher sales volumes through to the summer, and there was also a substantial increase in imports from non-EU countries. Despite this, with raw material prices rising it was possible to gradually increase prices for quarterly contracts and spot transactions as demand outstripped supply in many cases.

The trend on the North American steel market was similar to that in Europe, although here the steel cycle appeared to peak in early fall. This was shown by slower demand growth, an increase in supply and a slight softening of prices, although these were also the highest in the world. In Asia, prices started to weaken significantly around summertime due to the growing supply overhang. More and more surplus production was exported. Supplies from China in particular – mainly to North America and Europe – increased significantly both compared with the prior year and in the course of 2006.

The market for stainless steel flat products developed positively. Following a weak prior year, global demand picked up strongly. According to current forecasts, demand for stainless flat products grew by almost 10% in 2006 to 14.7 million metric tons worldwide. In addition to the favorable economy, this was also due to distributors and end users restocking inventories which had been severely depleted in the previous year. At the same time, however, prices for some of the raw materials used to make stainless steel increased drastically. Nickel prices in particular reached new record highs.

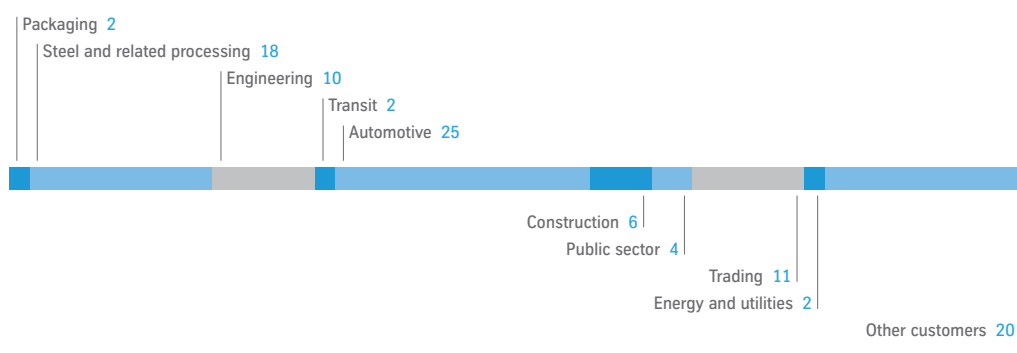
In Europe, the market for stainless steel flat products recovered noticeably following a decline the year before. Alongside the rise in demand, this was due to both temporary and permanent production cutbacks. The European producers recorded substantial improvements in order intake and were able to increase base prices on several occasions. All European stainless producers were operating at full

capacity. There were temporary bottlenecks in supplies to customers, and delivery times increased steadily. Higher prices and supply shortages also resulted in a significant increase in imports, which had declined the year before. In North America, there was also a surge in demand for stainless steel flat products which allowed base prices to be raised on several occasions. The situation in Asia and China remained tight. High capacity overhangs and weak demand impacted prices.

The market for nickel alloys benefited from positive developments in the plant construction, oil, gas and aerospace sectors. According to current forecasts, global market volume in 2006 showed a further slight improvement from its high prior-year level. The strong demand and improving prices for titanium mill products were also pleasing.

NICKEL ALLOYS AND TITANIUM  
MILL PRODUCTS BENEFITED  
FROM STRONGER DEMAND.

**Sales by customer group 2005/2006** in %



**Automobile production growing in Asia**

As expected, global auto demand continued to increase. According to estimates, global production grew by 2.5% in 2006 to 68.7 million cars and trucks. Roughly 80% of worldwide production growth was accounted for by the countries of Asia. China in particular strengthened its market position further and for the first time produced more vehicles than Germany. Initial forecasts put vehicle production in the Asian countries (excluding Japan) at around 15 million units, an increase of just under 10%.

At 16.2 million vehicles, production in the North American auto industry was slightly lower than a year earlier. In the face of sharply rising gasoline prices, the light truck segment – in particular large pick-ups and sport utility vehicles – suffered a significant reduction in sales. In Brazil, vehicle production rose by 4.5% in 2006 to 2.5 million units.

The auto markets in Central and Eastern Europe were in good shape, with production up by around 10% in 2006 according to forecasts. Vehicle production in Western Europe in 2006 was slightly lower than a year earlier at just under 17.4 million units. Initial estimates put Germany’s vehicle production at 5.8 million units, a 1% improvement on the previous year. This was due in particular to high demand for trucks and car exports.

### Expansion in mechanical engineering sector

Against a backdrop of a strong global economy and rising investment, the situation in the mechanical engineering sector improved. The USA, Japan and above all China achieved substantial production growth in 2006. The positive trend also continued in the German engineering industry. According to initial estimates, strong orders both from home and abroad resulted in a more than 5% increase in mechanical engineering output. Germany's plant engineering sector continued to enjoy lively demand.

### Recovery in German construction sector

The highest growth in the construction sector was in Asia and Central and Eastern Europe. In the USA, growth in 2006 was roughly level with the prior year. By contrast, the prospects for the German construction industry brightened. Higher demand from industry and infrastructure renewal projects resulted in a significant increase in orders. Following years of recession, construction output recorded slight growth.

## SUCCESSFUL BUSINESS PERFORMANCE BY THYSSENKRUPP

### ThyssenKrupp in figures

		2004/2005	2005/2006
Order intake	million €	43,509	50,782
Sales	million €	42,927	47,125
EBITDA	million €	3,809	4,700
Income*	million €	1,677	2,623
Employees (Sept. 30)		185,932	187,586

All figures relate to continuing operations. \* before taxes

2005/2006 WAS THE GROUP'S  
MOST SUCCESSFUL FISCAL YEAR  
TO DATE.

In this generally positive economic environment, ThyssenKrupp performed successfully in 2005/2006, achieving its highest earnings to date. There were further improvements to our key financial indicators, as shown in the table above.

### Strong increase in orders and sales

Order intake and sales rose sharply. Orders from continuing operations climbed to €50.8 billion, 17% higher than a year earlier. New orders therefore showed a greater improvement than we expected a year ago, with above all the materials business in the Steel, Stainless and Services segments performing better than predicted.

Sales from continuing operations rose by 10% to €47.1 billion. Strong demand and higher prices for carbon and stainless steel flat products increased sales at Steel and Stainless more sharply than planned. Services also clearly exceeded its targets thanks to the strong materials markets. The volume of business at Automotive, Technologies and Elevator was slightly higher than anticipated.

**Sales by segment** in million €

	2004/2005	2005/2006
Steel	9,568	10,747
Stainless	5,572	6,437
Special Materials	389	—
Automotive	7,867	8,045
Technologies	5,765	6,012
Elevator	3,773	4,298
Services	12,678	14,204
Corporate	138	148
<b>Segment sales</b>	<b>45,750</b>	<b>49,891</b>
Inter-segment sales	(2,823)	(2,766)
<b>Sales of continuing operations</b>	<b>42,927</b>	<b>47,125</b>

**Systematic continuation of portfolio optimization**

ThyssenKrupp continued its portfolio optimization process. Major acquisitions in 2005/2006 included the purchase of a stake in Atlas Elektronik by the Technologies segment. Elevator strengthened its global market position through a number of smaller acquisitions. At Services, acquisitional growth was focused on Eastern Europe and North America. Automotive disposed of several non-core activities, including the European truck springs business, European and North American aluminum foundries and the us vehicle component plants. The other segments also disposed of marginal activities.

In the reporting year up to and including October 2006 we acquired companies with sales of €0.9 billion and disposed of companies with sales of €1.9 billion. Since the merger of Thyssen und Krupp we have now sold companies with sales of €8.9 billion and acquired others with sales of €7.9 billion.

**Record earnings**

In addition to our outstanding business performance and successful efficiency enhancement programs, the portfolio optimization improved the quality of the Group's earnings. Consolidated earnings were €2,623 million, €946 million or 56% higher than our good prior-year income.

**Almost 1% increase in workforce**

The number of employees increased. On September 30, 2006, the Group had a total of 187,586 employees, 1,654 or almost 1% more than a year earlier. Due to disposals, the headcount fell in particular at Automotive. Services recorded the largest increase as a result of acquisitions.

FURTHER IMPORTANT PROGRESS

WAS MADE IN THE PORTFOLIO

OPTIMIZATION PROCESS.

OUR EFFICIENCY ENHANCEMENT  
PROGRAM UNLOCKED PRODUCTIVITY  
RESERVES.

## EXPECTATIONS EXCEEDED

Our excellent business performance significantly exceeded the expectations we had at the time of writing last year's annual report. Sales were 10% higher than our planned figure of €43 billion. This was due not only to the favorable economic situation but also to our successful marketing efforts. Furthermore, our efficiency enhancement programs unlocked substantial productivity reserves which improved profitability and increased the value of the company. As a result, we exceeded our original earnings target – €1.5 billion excluding nonrecurring effects – by €1.1 billion, an increase of almost 75%. At 17.9%, our ROCE was also considerably higher than expected at the start of the reporting year. Once these positive developments became sufficiently concrete in the course of the reporting period, we raised our expectations accordingly and communicated this.

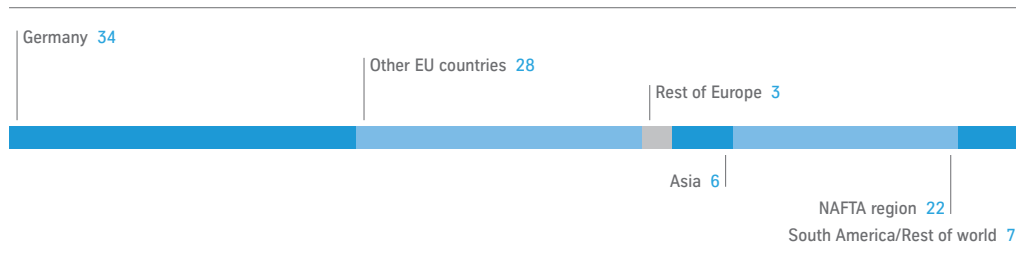
## KEY SALES MARKETS AND COMPETITIVE SITUATION

ThyssenKrupp operates worldwide. We generate 34% or €15.8 billion of our sales in Germany and 66% or €31.3 billion outside Germany. Our main foreign markets are the EU countries (28% of sales) and the NAFTA region (22%). ThyssenKrupp companies and products occupy leading positions on many international markets.

### Worldwide marketing

ThyssenKrupp supports sales of its products and services worldwide through a large number of marketing measures, from product design, pricing policy and sales organization through to product-related communications and advertising. The companies in the individual segments operate independently on the markets and are responsible for their own marketing efforts, based on Groupwide corporate design guidelines. Given the broad spectrum of products and services within our Group and the highly differing markets on which we operate, this allows us to respond swiftly to market changes and customer requirements. In close contact with customers, our subsidiaries optimize their products and position them against competing products. Continuous innovations secure the quality and unique selling points of our range.

### Sales by region 2005/2006 in %



## INCOME AND DIVIDEND

### Income by segment in million €

	2004/2005	2005/2006
Steel	1,094	1,417
Stainless	286	423
Special Materials	(69)	—
Automotive	118	(174)
Technologies	40	357
Elevator	355	391
Services	261	482
Corporate	(382)*	(230)
Consolidation	(26)	(43)
<b>Income from continuing operations before taxes</b>	<b>1,677</b>	<b>2,623</b>

\* excl. non-recurring losses in connection with RAG investment

### Profits increase significantly for third year in a row

In fiscal 2005/2006, ThyssenKrupp increased its pre-tax earnings from continuing operations by €946 million to €2,623 million. The company thus achieved a significant, nine-figure earnings increase for the third year in a row. Key factors in this were the high price levels and continued strong demand for carbon and stainless steel products. This benefited above all the Steel, Stainless and Services segments. The Technologies segment significantly improved its profits thanks in particular to strong demand for industrial plants and mechanical components. The Elevator segment increased its income at a high level, above all in North America. The Automotive segment returned a large loss due to heavy restructuring and impairment charges; operating earnings were positive overall despite margin pressure and negative exchange-rate effects.

Sales and cost of sales each rose by just under 10%, while the gross sales margin at 17% was level with a year earlier. Administrative and selling costs increased more slowly. Other operating income increased by €433 million: this was partly due to the receipt of a break-up fee from the terminated acquisition of Dofasco; it also includes insurance payments resulting from two major fires. The corresponding expense due to the property damage and business interruptions as well as the costs of loss minimization measures are included in cost of sales or sales. The €134 million increase in other operating expenses is largely due to restructuring expenses, in particular in the Automotive segment.

Interest income was higher due to higher average cash balances, while interest expense was lower due to the reduction of debt during the reporting period.

Income tax expenses amounted to €919 million, compared with €737 million in the previous year. The tax rate decreased from 44% to 35%. This is partly due to the fact that operating companies in countries with lower statutory tax rates generated a higher share of the taxable income. In addition, last year's losses on disposals without tax effect were replaced this year by slight gains on disposals without tax effect.

THYSSENKRUPP ACHIEVED A  
SIGNIFICANT INCREASE IN PROFITS  
FOR THE THIRD YEAR IN A ROW.

EARNINGS PER SHARE  
INCREASED TO €3.24.

In the reporting year there was no expense or income from discontinued operations. The comparable prior-year figures included the disposal gains/losses and ordinary income from the residential real estate business and the MetalCutting business unit of the Technologies segment. Prior-year income was also reduced by an impairment charge on the investment in RAG.

Net income amounted to €1,704 million, compared with €1,079 million in the prior year.

Minority interest in net income rose to €61 million, compared with €41 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 €2.08 in the prior year to €3.24 in the reporting year. The weighted average number of shares outstanding in the reporting year was 507,731,743 (prior year 498,628,610). This includes 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 €1,118 million, compared with €920 million the year before. Income from investments decreased by €409 million to €1,131 million due to the significantly higher profit transfer in the prior year from ThyssenKrupp Real Estate GmbH, resulting from the disposal of the residential real estate business. The utilization of the accrued liability recognized at ThyssenKrupp AG in 2004/2005 for valuation risks from pension liabilities of subsidiaries increased profits by €531 million. The corresponding risks were recognized at the subsidiaries and reduced their profit transfers.

Other operating income decreased only slightly by €15 million. After deducting expenses for Group management activities, pension costs for former employees of ThyssenKrupp AG and its predecessor companies and net interest expense of €162 million, income from ordinary activities amounted to €1,179 million, compared with €1,578 million in the previous year.

Extraordinary income includes the receipt of a €153 million break-up fee from the terminated acquisition of Dofasco and costs of €40 million from the merger of ThyssenKrupp Materials & Services GmbH into ThyssenKrupp AG. In the prior year, the extraordinary loss included the impairment of the carrying value of the investment in RAG Aktiengesellschaft in the amount of €512 million.

Income tax expense amounted to €174 million; this amount is influenced by the utilization of tax loss carryforwards still existing at September 30, 2005.

Of the resultant net income of €1,118 million, €570 million was transferred to retained earnings. Included in this is the write-up on the shares of ThyssenKrupp Steel Beteiligungen GmbH in accordance with Art. 58 par. 2a AktG of €22 million net of tax.

The remaining unappropriated net income is €548 million. Subject to the approval of the Annual General Meeting, this amount is to be used to distribute a dividend of €489 million. An amount of €33 million is to be transferred to retained earnings to strengthen stockholders' equity. The balance of €26 million is to be carried forward.

### €1.00 dividend per share

The legal basis for the dividend payment is the HGB unappropriated net income of ThyssenKrupp AG in the amount of €548 million (previous year €448 million). It comprises the HGB net income of ThyssenKrupp AG in the amount of €1,118 million (previous year €920 million) less €570 million which has already been transferred to retained earnings by the Management.

The Executive Board and Supervisory Board will propose to the Annual General Meeting the payment of a dividend of €1.00 per share (previous year €0.70 per share and a special dividend of €0.10 per share), the transfer of a further €33 million to retained earnings, and the carryforward of the balance of €26 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 €548 million unappropriated net income, a total of €489 million is to be used to pay a dividend on the 488,764,592 shares eligible for dividend payment as of September 30, 2006.

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

EXECUTIVE BOARD AND SUPERVISORY  
BOARD RECOMMEND A DIVIDEND OF  
€1.00 PER SHARE.

### Balance sheet of ThyssenKrupp AG (HGB) in million €

	Sept. 30, 2005	Sept. 30, 2006
Investments in non-consolidated subsidiaries	8,702	9,688
Other fixed assets	1,589	1,610
<b>Fixed assets</b>	<b>10,291</b>	<b>11,298</b>
Receivables from non-consolidated subsidiaries	9,297	6,943
Other operating assets	4,035	4,164
<b>Operating assets</b>	<b>13,330</b>	<b>11,107</b>
<b>Assets</b>	<b>23,621</b>	<b>22,405</b>
<b>Stockholders' equity</b>	<b>5,649</b>	<b>6,355</b>
Special item with reserve elements	57	58
<b>Accrued liabilities</b>	<b>1,080</b>	<b>436</b>
Liabilities to non-consolidated subsidiaries	14,637	13,261
Other liabilities	2,198	2,295
<b>Liabilities</b>	<b>16,835</b>	<b>15,556</b>
<b>Stockholders' equity and liabilities</b>	<b>23,621</b>	<b>22,405</b>

### Statements of income of ThyssenKrupp AG (HGB) in million €

	2004/2005	2005/2006
Income from investments	1,540	1,131
Other operating income	664	649
Other expenses and income	(626)	(601)
<b>Income from ordinary activities</b>	<b>1,578</b>	<b>1,179</b>
Extraordinary income/loss	(512)	113
Income taxes	(146)	(174)
<b>Net income</b>	<b>920</b>	<b>1,118</b>
Allocation to retained earnings	(481)	(570)
Carryforward	9	0
<b>Unappropriated net income</b>	<b>448</b>	<b>548</b>

## CAPITAL EXPENDITURES

### Investment by segment in million €

	2004/2005	2005/2006
Steel	537	515
Stainless	211	230
Special Materials	27	–
Automotive	480	448
Technologies	413	300
Elevator	121	164
Services	190	393
Corporate	71	30
Consolidation	(147)	(3)
<b>Group</b>	<b>1,903</b>	<b>2,077</b>

All figures relate to continuing operations. \* before taxes

In 2005/2006, ThyssenKrupp made investments of €2.1 billion, 9% more than the previous year. €1,621 million was spent on property, plant and equipment and intangible assets, while the remaining €456 million was used for acquisitions. Capital expenditure was €0.7 billion higher than depreciation (€1.4 billion).

ThyssenKrupp invests strongly in its growth areas to ensure they remain competitive in the future. More than half of the investments made were to expand capacities and production. Other key areas include increasing the technical efficiency of existing equipment and integrating advanced technologies.

Further information can be found in the notes to the consolidated statements of cash flows in the section “Financial position” on pages 83-84.

INVESTMENTS IN  
GROWTH AREAS STRENGTHEN  
COMPETITIVENESS.

## PROCUREMENT: RAW MATERIAL PRICES STILL HIGH

Materials expense in the reporting year totaled €29.7 billion, up 11% from the prior year. As well as increased raw material prices, the rise reflects the higher volume of business. Although markets were tight in part, supplies were secured at all times.

### Iron ore more expensive

Price trends on the international raw material markets varied. Due to continued high demand we had to accept a 19% rise in the price of fine iron ores. By contrast, we achieved a 3% reduction in the price of pellets. We purchase most of our ores and pellets from suppliers in Brazil, Australia and Canada.

### Materials expense in billion €

2001/2002	20.7
2002/2003	20.5
2003/2004	23.2
2004/2005	26.6
<b>2005/2006</b>	<b>29.7</b>

The supply situation for coking coal eased significantly in the reporting year. This was partly due to an increase in output by international coal producers and partly to the fact that stocks at consumers worldwide were higher than in the past. Against this background, we were able to achieve price reductions of around 10% at the start of the new coal business year on April 01, 2006, and as much as 35% for PCI coal.

The clear easing of the China-dominated coke market has brought about a notable decrease in prices for internationally traded blast furnace coke since 2005. Although prices started to climb again slightly in spring 2006, they are still well below the peak levels of late 2004/early 2005.

By contrast, there were signs of supply shortages on the nickel market. During the reporting period, nickel prices rose from US\$11,600 per ton in November 2005 to US\$20,685 per ton in May 2006 and further to US\$29,700 per ton in August 2006. The surcharge for immediate delivery was up to US\$5,050 per ton.

World market prices for chromium dipped briefly before regaining their previous level from mid-2006. After brief spikes, prices for ferromolybdenum fell to around US\$60 per kilogram. There was a similar trend in vanadium. By contrast, prices for aluminum and zinc rose in part drastically. Between October 2005 and May 2006, the price of zinc more than doubled, and at the end of the reporting period was 129% higher than at the start of the fiscal year.

Prices for unalloyed steel scrap moved in waves: at the start of the reporting year they fell to €180 per ton, rose as high as €236 per ton in July 2006 and then started to trend slightly downward again. Prices for alloyed scrap remained stable until early 2006, as sufficient quantities were available on the market. With the stainless steel market performing strongly, demand for alloyed scrap later increased significantly, which also drove up prices.

PRICES FOR ALLOYING METALS  
SUCH AS CHROMIUM AND ZINC  
ROSE SHARPLY.

### Pooling of orders and annual contracts improved purchasing position

We were able to counter many price increases by increasingly pooling our orders and concluding annual contracts. This was the case for example for purchased electrical, mechanical, pneumatic and hydraulic parts which are independent of metal prices. Although delivery periods for special and large-scale engineering parts were longer in the mechanical and plant engineering sectors due to very high workloads at supply companies, prices remained stable.

For other products as well as direct and indirect services, identifying new international suppliers helped us to maintain or even reduce price levels. Pooling purchasing volumes also strengthened our negotiating position. Further concrete cost advantages were achieved by our in-house sourcing project, under which production operations within the Group compete with established market players.

Purchasing activities in the Group are supported by newly introduced strategic tools for supplier management (analysis and development of strategic suppliers) and global sourcing (systematic analysis of sourcing categories and identification of new procurement sources).

Our global purchasing efforts are also facilitated by the ThyssenKrupp procurement platform. A Strategic Sourcing module accessible via the internet allows worldwide requests for quotes and auctions. In the reporting year we advertised purchases worth more than €500 million. Online requests for quotes are currently being used by Group companies in Germany, Liechtenstein, France, Italy, the United Kingdom and the USA. The number of auctions has also increased.

Our second program module – Catalog Ordering – has further established itself internationally. More than 3 million items from over 250 suppliers can now be purchased online. This significantly reduces the costs of purchasing transactions for both us and our suppliers.

We also launched a standard Groupwide supplier management system in the reporting year. Suppliers throughout the Group are assessed on the basis of standardized methods and criteria. All departments and employees working with the suppliers are involved in these assessments via an internet-based supplier management tool. This has also created a supplier database which our companies can access online.

### Oil prices drive up logistics costs

FUEL PRICE INCREASES

PUSHED UP TRANSPORTATION

COSTS.

Prices for outsourced road freight services were impacted by the high fuel costs, in particular in Western Europe. By contrast, we were able to achieve price reductions for road freight services to Eastern Europe. For general cargo we optimized our market position by concluding framework agreements. Full loads were increasingly tendered directly on the market via platforms. Rail freights within Germany are mainly secured by long-term agreements. Costs for international rail freights actually fell. In the area of air freights, we managed to achieve price reductions through framework agreements. However, this is being countered by costs for fuel surcharges and security procedures.

Ocean shipping rates for bulk goods, while still high, were lower than the previous year. Container freights to Asia were favorably priced, but rates for shipments from this region were high. Container freight capacities to the USA/Canada remain limited and are therefore susceptible to price increases. With container volumes on the rise, some ports are experiencing difficulties in loading freights efficiently and cost-effectively.

Energy prices in the reporting period were higher than a year earlier. As demand in Asia continued to rise, the cost of mineral oil and oil-based products rose dramatically, exacerbated by the production losses as a result of hurricanes Katrina and Rita. At the same time, prices for natural gas increased by 48%. Our suppliers claimed declining deposits in exporting countries and a revaluation of natural gas on the market as the reason for this price hike. We also had to accept higher prices for electricity. The extra costs resulting from the subsidization of renewable energies and combined heat and power plants as well as the electricity tax made this form of energy more expensive than ever.

The introduction of CO<sub>2</sub> emissions trading was another cause of rising electricity costs. It was not possible to compensate for the higher prices through the sale of allowances under the emissions trading system, which ThyssenKrupp joined for the first time in fiscal 2005/2006. Overall, our companies received allowances for the emission of 18.7 million metric tons of CO<sub>2</sub> per year for the first trading period (2005–2007). By reducing emissions from production operations and due to rules restricting the allocation of allowances to the first trading period, we had a surplus of allowances which could be sold in the emissions trading system. Emissions trading is performed by the Group holding company in order to utilize synergies and simplify risk management.

## ENVIRONMENTAL PROTECTION: TARGETING SUSTAINABILITY

### Ongoing expenditure on environmental protection in million €

	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006
Air pollution control	105	101	124	141	141
Water protection	163	161	177	165	168
Noise control/landscape protection	11	13	12	15	16
Recycling	61	60	64	81	87
<b>Total</b>	<b>340</b>	<b>335</b>	<b>377</b>	<b>402</b>	<b>412</b>

Sustainability and resource conservation were the central elements of ThyssenKrupp's environmental protection efforts in the reporting year. In addition to the €412 million spent on operating pollution control equipment and the €30 million invested in environmental protection, all segments took numerous measures to reduce their consumption of energy and raw materials. As raw material and energy prices are high, these measures also helped improve profitability.

The Steel segment was honored with Volkswagen AG's Environmental Award. As well as our environment-friendly production operations, the award was mainly in recognition of our innovative solutions to help reduce emissions from cars. These include weight-optimized parts which reduce fuel consumption. ThyssenKrupp Steel was named as one of Volkswagen's Sustainability Partners and thus joined a circle of suppliers who have committed to the objectives of sustainability.

Sustainability and environmental protection were important aspects in the construction of a new blast furnace and the modernization of an existing one in Duisburg. New dust collection systems will further reduce dust and particulate emissions in the future, while a quiet-running cooling system will lower noise emissions.

Environmental experts and plant engineers in the Stainless segment introduced a new electrochemical process to recycle the used acids and metal-bearing sludges arising during the pickling of stainless steel. This electro dialysis system recovers acid and reduces the nitrate in the waste water by 35%. Further development work is aimed at creating a closed recycling process without any used acids or waste water.

For the production of modern injection valves used in car engines, a sleeve was developed using the material Pernifer 36Z which displays virtually no thermal expansion even at temperatures up to 200°C. This guarantees the functionality of the injection valves – which is key to low-emission engines – in all load and temperature ranges.

Resource conservation and energy savings were also to the fore at Automotive. In the future, production shops will be heated utilizing the waste heat from furnaces, which was previously unused. Heating oil consumption will also be lowered using a heat pump. Water consumption has been reduced in a hardening shop by redesigning the cooling circuits. A new forging technology introduced at ThyssenKrupp Metallurgica Campo Limpo in Brazil allowed a combination of improved production precision, compliance with strict emissions standards and weight reduction. The company also set up an "environment school" specially for students from schools in the area to raise their awareness of nature.

SUSTAINABILITY AND ENVIRONMENTAL PROTECTION PLAY A MAJOR ROLE IN ALL SEGMENTS OF THYSSENKRUPP.

WE HAVE DEVELOPED A  
PLANT FOR COMPOSTABLE  
PLASTIC.

The Technologies segment built an EnviNOx<sup>®</sup> tail gas treatment facility for the Abu Qir Fertilizer Company in Egypt. This technology uses a catalyst to convert ecologically damaging laughing gas and nitrogen oxide into harmless nitrogen, oxygen and water. This one facility alone will provide a reduction in greenhouse gas emissions with the same impact on the environment as 1.4 million tons of CO<sub>2</sub>. That is equivalent to the CO<sub>2</sub> emissions of roughly 350,000 cars being driven 20,000 km per year.

Another development involved a plant for the production of a compostable plastic from renewable raw materials such as maize or wheat. This plastic – a polylactic acid – can be used to replace the packaging materials PET and polystyrene. Further measures related to saving energy, for example in heat treatment furnaces.

Measures in the Elevator segment were also focused on improving energy efficiency in elevators and escalators. A series of gearless drives was developed for elevators which, in conjunction with innovative changes to the entire drive and suspension system, further reduce energy consumption. In the area of escalators, a new generation of equipment was launched offering significantly lower purchasing costs. One example is that the energy-saving “slow running” option for empty escalators can now be used on far more installations, reducing energy consumption for our customers.

Engineers and technicians from the Industrial Services unit of the Services segment installed a modern firing system in a waste-fed heating plant in Bremen which burns the waste more efficiently while at the same time reducing emissions. Controlled heat discharge and an optimized air supply improve incineration and increase efficiency, and in so doing reduce specific emissions and residues.

## SUMMARIZED ASSESSMENT OF THE FISCAL YEAR

ThyssenKrupp performed very well in the past fiscal year. In addition to pre-tax earnings, other indicators also hit record levels. The Steel, Stainless, Technologies, Elevator and Services segments further improved their market positions, sales and earnings. The Automotive segment pressed ahead with its restructuring, particularly in the USA. In all segments, the focus was on higher performance and efficiency; the ThyssenKrupp best corporate program continued its success.

With the Group having largely completed its consolidation phase, our aim is now to achieve profitable and sustainable growth in our three main business areas of Steel, Capital Goods and Services. Through organic growth, targeted acquisitions and a stronger service focus, we will continuously increase our earning power and enterprise value. The results of the reporting year already indicate initial successes.

## COURSE OF BUSINESS IN THE SEGMENTS

The task of our segments is to supply customers on all five continents with materials, capital goods and services. The strong figures achieved in the reporting period are a clear sign of their success: from high-quality steel plates to submarines, from modern elevators to sophisticated logistics systems, the products and services of our Group are more in demand than ever.

### STEEL

#### Steel in figures

		2004/2005	2005/2006
Order intake	million €	9,148	11,057
Sales	million €	9,568	10,747
Steelmaking	million €	937	1,004
Industry	million €	5,230	5,846
Auto	million €	2,505	2,947
Processing	million €	2,081	2,433
Consolidation	million €	(1,185)	(1,483)
Income*	million €	1,094	1,417
Employees (September 30)		31,634	30,647

All figures relate to continuing operations. \* before taxes

#### Order intake and sales: Higher volumes and prices

The Steel segment is focused on the production and sale of high-quality carbon steel flat products including associated services. Thanks to the extremely positive market environment business increased significantly in 2005/2006. Order intake rose by 21% to €11.1 billion, reflecting not only significantly higher order volumes but also the price increases achieved on the market. Sales were also up, by 12% to €10.7 billion, due to both volume and price factors.

Crude steel production was level with the prior year at 13.8 million metric tons. Crude steel volumes were significantly affected by several disruptions at our investee company Hüttenwerke Krupp Mannesmann. Despite increased production in our own steel mills it was not possible to fully offset the losses. To meet high steel demand, slabs from our own inventories and outside purchases were additionally used. Rolled steel production for customers increased by a total of 4% compared with the prior year. The cold-rolled uncoated and coated flat products benefited primarily from this, whereas volumes of hot-rolled flat products were unchanged from the prior year. Production capacities were fully utilized for the most part.

The Steelmaking business unit combines the metallurgical operations in Duisburg and the logistics activities. Its main role is to supply the three other business units with low-cost, high-quality starting material. The business unit's sales of pig iron, slabs and energy to external customers were higher than a year earlier due to the passing on of higher raw material costs. The transport companies also recorded higher sales revenues.

The Industry business unit is focused on a broad spectrum of customers in the steel-using sector. Sales were up 12% from the prior year. With customers continuing to enjoy good workloads, shipments increased significantly, in particular of hot strip, sheet and hot-dip coated material. Not all demand could be met. Given the lively demand, prices for quarterly deals were raised from the second fiscal half. Price reductions had to be accepted on some annual contracts. The European steel service centers and the construction elements business also recorded higher sales than a year earlier.

IN A GOOD MARKET ENVIRONMENT,  
THE STEEL SEGMENT ACHIEVED 12%  
SALES GROWTH.

STEEL ACHIEVED A  
PROFIT OF €1.4 BILLION  
IN 2005/2006.

The Auto business unit supplies steel products and services to automotive customers throughout the world. Sales increased by 18% on account of the substantial price increases agreed at the beginning of the year with the auto industry. Shipments also increased compared with a year earlier. In the case of tailored blanks, the increase in sales against a slight rise in operating volumes was mainly the result of higher material prices being passed on to customers. In addition, the ramp-up of the production sites in China and Sweden had a positive effect. The steel service activities in North America also expanded their sales significantly. Despite the difficult situation on the North American auto market, sales volumes increased considerably.

The Processing business unit combines our tinplate, medium-wide strip and grain-oriented electrical steel activities. Sales increased in total by 17%. The tinplate business recorded significant growth due to volume and price factors. The platform for the increase in shipments was the successful expansion carried out at the Andernach location. Sales of medium-wide strip at Hoesch Hohenlimburg decreased as a result of the disposal of the special profiles business. Sales of the medium-wide strip business were affected by insufficient supplies of starting material from Hüttenwerke Krupp Mannesmann. By contrast, grain-oriented electrical steel continued to develop very dynamically. The capacity expansion at the plants in Germany and France permitted significant volume increases, in particular for the higher-value grades. Revenues also improved significantly.

### Earnings

The Steel segment increased its profits by €323 million to €1,417 million. Higher net revenues and shipments more than offset the significant price rises for key raw materials and increased processing costs.

The Steelmaking business unit improved its earnings and returned a profit. This was mainly attributable to an improved revenue structure for pig iron and the systematic realization of cost-cutting potential. The price rises for key raw materials, energy and freights were passed on to the downstream business units as starting material costs.

The Industry business unit once again generated a significant profit but fell short of the prior-year level. Higher volumes and cost-cutting measures were not enough to offset increases in the cost of starting materials and zinc. The European steel service centers also failed to match their high prior-year profits as higher volumes were outweighed by negative price effects. In a continuing difficult market environment, the construction elements activity achieved a slightly improved profit.

The Auto business unit significantly expanded its earnings, mainly as a result of higher prices and volumes. Efficiency enhancement programs also had a positive effect. All of this more than offset the higher procurement costs. Tailored blanks achieved higher income on the back of higher volumes and successful rationalization measures. Profits at the North American steel service activities rose as a result of higher volumes. The earnings of the Auto business unit also include insurance recoveries from the fire in the EBA 2 line in the previous year.

The Processing business unit again improved distinctly on its very good prior-year earnings. Profits from the tinplate operations were level with a year earlier; higher volumes and net revenues almost completely offset the significant increase in starting material prices and shipment costs. Despite declining shipments, the medium-wide strip business improved slightly on its good prior-year income. At the electrical steel activity, the positive market environment with significantly higher net revenues combined with earnings-improvement programs to achieve a substantial increase in profits.

### Significant events

Steel continued its active portfolio management in the reporting period and restructured its operations in accordance with the market situation. ThyssenKrupp Tailored Blanks expanded its business, mainly in China and Sweden. Production was ceased at the Dortmund location and transferred to Duisburg and Wolfsburg.

In the Construction Elements area, further measures were resolved to adapt the structure to market requirements. The Hof and Leipzig plants are to be closed and production concentrated on the Eichen and Oldenburg plants. A new plant is to be set up in Eastern Europe to better tap the growing markets in that region.

A site optimization process has also been initiated in the Steel Service Europe business. The UK operations were sold to a management buyout at the end of the fiscal year. Presence in the expanding Eastern European market is being strengthened with a new steel service center in Poland.

ThyssenKrupp Steel disposed of its last remaining long products activity by selling the special profiles division of Hoesch Hohenlimburg.

### Capital expenditures

The capital expenditures of the Steel segment amounted to €515 million in the reporting period, with depreciation at €571 million. At ThyssenKrupp Steel AG, the focus of investment was the modernization of the ironmaking facilities in Duisburg. The centerpiece of this is the construction of a new blast furnace 8, supported by the relining of neighboring blast furnace 9; work began in the reporting period. The total investment for the blast furnace project is €340 million. In addition, we began to expand the hot strip mills and improve our logistical infrastructure with an eye on the steel mill project in Brazil. The modernization of the cold rolling mills was completed.

Towards the end of the reporting period ThyssenKrupp Tailored Blanks opened a new plant in southern Sweden with two welding lines and a total capacity of 60,000 metric tons. Investment was also made in the world's first tailored strip facility.

Rasselstein completed its investment projects under the forward strategy for tinplate on schedule. The facilities began full operation in March 2006. The total investment of €160 million included the building of a continuous annealing furnace, the relocation of the Dortmund coating facility and inspection line, a new finished-products warehouse as well as the creation of the necessary infrastructure. The investment has increased capacity by 20%. Hoesch Hohenlimburg mainly invested in a new slitting and packaging line, which is scheduled to go into operation at the beginning of 2007.

ThyssenKrupp Electrical Steel invested large sums in the expansion of its two plants in Gelsenkirchen and Isbergues, mainly to increase existing decarburizing capacities. In addition, the foundation stone was laid for a new decarburizing line in Gelsenkirchen. Following successful restructuring, the forward strategy for electrical steel has now been largely implemented. The measures completed in the past fiscal year will increase production capacity to 250,000 metric tons and at the same time further raise the proportion of higher-value material.

IN DUISBURG, INVESTMENTS  
WERE MADE IN BLAST FURNACES  
AND PROCESSING CAPACITIES

## STAINLESS

### Stainless in figures

		2004/2005	2005/2006
Order intake	million €	5,573	7,292
Sales	million €	5,572	6,437
ThyssenKrupp Nirosta	million €	2,554	2,682
ThyssenKrupp Acciai Speciali Terni	million €	2,095	2,505
ThyssenKrupp Mexinox	million €	472	559
Shanghai Krupp Stainless	million €	182	364
ThyssenKrupp Stainless International	million €	1,278	1,186
ThyssenKrupp VDM	million €	789	998
Consolidation	million €	(1,798)	(1,857)
Income*	million €	286	423
Employees (September 30)		12,201	12,197

All figures relate to continuing operations. \* before taxes

A STRONG MARKET REVIVAL AND  
INNOVATIVE PRODUCTS FURTHER  
BOOSTED SALES AT STAINLESS.

### Order intake and sales: Significant expansion of business

The Stainless segment is a leading supplier of stainless steel, nickel alloys and titanium. The strong market revival, coupled with increasingly effective base price rises in the European market and NAFTA region, the further improvement in the product range – associated with an increase in added value – as well as the passing on of increased raw material costs led to a significant expansion of business.

Order intake rose by 31% to €7.3 billion, reflecting volume and price factors. Total shipments were 10% higher than a year earlier, mainly due to increased deliveries of cold-rolled strip.

Stainless expanded its sales by 16% to €6.4 billion in the reporting period. The main reasons for this were higher customer deliveries and significantly increased base prices for stainless steel. In addition, alloy surcharges increased as a result of higher raw material costs, particularly for nickel.

The ThyssenKrupp Nirosta and ThyssenKrupp Acciai Speciali Terni business units in particular recorded high order volumes and expanded their sales significantly. Both business units profited from the sharp increase in stainless steel demand in Europe. ThyssenKrupp Acciai Speciali Terni also increased its business with end customers due to the expansion of the finishing line in Terni. Despite a fire in the Krefeld cold rolling mill, ThyssenKrupp Nirosta was able to fill most customer orders thanks to targeted redistribution within the segment.

The order situation also improved significantly at ThyssenKrupp Mexinox and Shanghai Krupp Stainless. Both business units also increased their sales. At ThyssenKrupp Mexinox, high demand in North America coupled with favorable prices had a positive impact. In addition, ThyssenKrupp Mexinox was able to further improve its market position in higher-value stainless steel products. Shanghai Krupp Stainless also achieved higher sales, mainly due to production support given to ThyssenKrupp Nirosta to minimize the fire-related losses. Despite quickening Chinese domestic demand, prices failed to reach a satisfactory level in line with the raw material price trend.

ThyssenKrupp Stainless International benefited in particular from a significant increase in service center business following the restructuring last year of the international service center network and the opening of the distribution center in Guangzhou (China).

Orders at ThyssenKrupp VDM were higher than a year earlier. This was mainly due to a much higher price level; prices increased as a result of higher demand in the aerospace, energy generation and oil and gas sectors as well as higher costs for raw materials. Sales at ThyssenKrupp VDM increased significantly.

### Earnings

Profits in the Stainless segment rose by €137 million to €423 million. The increase reflected the recovery in demand which took place in almost all market segments from early 2006, accompanied by a continuous increase in base prices. This positive trend was driven by a significant increase in demand from end users and by restocking after the depletion of stocks in the previous year. The temporary and permanent production cutbacks and losses by European producers also contributed to the stabilization of prices. Earnings were impacted by the drastic rise in raw material and energy costs.

The German flat stainless steel business improved only slightly on its prior-year income, although higher expense from the fire damage in the Krefeld plant was offset by insurance recoveries. The profits of the Italian operations were significantly higher than a year earlier; the forging and titanium activities made a major contribution to this. In a positive market environment, the Mexican cold rolling activities matched the good earnings of the prior year. The Chinese cold rolling operation once again returned a loss, albeit significantly lower than a year earlier. Although demand is still increasing on the Asian market, and in particular in China, overcapacities are growing as well. As a result, it was not possible to offset the higher costs of raw materials through price increases. In an improving stainless market, the global service center and distribution activities returned significantly higher profits.

The nickel alloy operations achieved a substantial improvement in earnings. Key to this was the continuing strong demand from the plant engineering, aerospace, oil and gas sectors. Cost-cutting and efficiency enhancement programs also contributed to the positive performance.

DESPITE HIGHER RAW MATERIAL COSTS,  
THE STAINLESS SEGMENT INCREASED  
ITS PROFIT TO €423 MILLION.

### Significant events

Due to a technical defect, a major fire occurred in the cold rolling mill of ThyssenKrupp Nirosta in Krefeld on June 22, 2006. Work on replacing the two production lines affected will run into the new fiscal year. In the meantime we are filling customer orders as far as possible from the production capacities of other mills.

### Capital expenditures

Stainless invested €230 million in fiscal 2005/2006, with depreciation at €142 million. The main areas of investment were the expansion of processing capacities and the further optimization of our worldwide distribution structures. Significant funds were invested to modernize production equipment and extend finishing and processing capacities. The distribution network was expanded and enhanced.

ThyssenKrupp Nirosta completed the expansion of the EBOR service center in Sachsenheim that was begun in the prior year. The new production shop with cut-to-length and grinding/brushing facilities allows us to maintain our focus on the high-margin processing business, in particular supplying stainless flat products to industrial customers engaged in the manufacture of white goods such as refrigerators and washing machines.

The extensive investment program at ThyssenKrupp Acciai Speciali Terni was aimed at strengthening the stainless business, particularly at the Italian location Terni. The largest single project was an advanced 20-high cold rolling stand for the Terni mill. The stand was ordered in mid-2005 and after commissioning in October 2006 replaced two older stands. It will allow ThyssenKrupp Acciai Speciali Terni to manufacture more products with higher value-added and so increase its proportion of higher-margin end customer business. Also at Terni, construction began of a new annealing/pickling line for stainless hot-rolled strip which will have a capacity of around 650,000 tons per year and replace several existing lines. The end product is pickled hot-rolled stainless in widths up to 1,570 mm and thicknesses of 1.5 to 7.0 mm. It is intended as a starting material for our own cold rolling mills and will also be supplied to end users. Production is scheduled to begin in the 3rd quarter 2007. The conversion of the former service center CS Inox in Terni into a mill finishing department is largely complete, as is the construction of a paint line for producing stainless steel strip with the newly developed transparent coating Silverlce® UV for highly demanding applications.

At Deutsche Titan in Essen, a company in the ThyssenKrupp Acciai Speciali Terni business unit, we built a further vacuum arc furnace and thus significantly expanded our production capacity for titanium ingots.

IN MEXICO, HIGH-VALUE

PRODUCTS ARE BEING

ADDED TO THE RANGE.

In August 2006, ThyssenKrupp Mexinox started operation of a bright annealing line in San Luis Potosi (Mexico) which had previously been used in the Terni plant of ThyssenKrupp Acciai Speciali Terni. In the space of only 18 months the line was dismantled at its original location, shipped to Mexico, completely refurbished and rebuilt. The investment in this additional production line and the associated expansion of finishing capacities will allow ThyssenKrupp Mexinox to increase its capacities and widen its product range, particularly in the area of higher-value products. Annual production will increase by around 30,000 to roughly 250,000 metric tons of stainless cold-rolled. This measure will significantly strengthen our position on the important stainless steel markets in Central and particularly North America.

ThyssenKrupp VDM intends to expand in highly profitable segments of the nickel alloy market, particularly in superalloys, i.e. high-performance materials with special corrosion and heat resistance properties. As part of this, remelting capacities in the Unna mill are being expanded. To reduce our dependence on outside manufacturers in the long products area, we are also building a new forging line at this location. The new line will start operation in 2008.

## AUTOMOTIVE

### Automotive in figures

		2004/2005	2005/2006
Order intake	million €	8,128	7,868
Sales	million €	7,867	8,045
Body	million €	2,866	2,853
Chassis	million €	3,459	3,657
Powertrain	million €	1,700	1,679
Consolidation	million €	(158)	(144)
Income*	million €	118	(174)
Employees (September 30)		43,537	39,446

All figures relate to continuing operations. \* before taxes

### Order intake and sales: Market environment difficult

As an international partner to the automobile industry, the Automotive segment develops and produces innovative components and systems for the chassis, body and powertrain areas. This market is in a phase of upheaval worldwide. Rising raw material and energy costs cannot be passed on to customers in full if at all in a highly competitive market. In North America, suppliers as well as traditional auto manufacturers are in the middle of a radical restructuring and downsizing process. In Europe, suppliers are under major pressure from manufacturers to further reduce costs. In Brazil, vehicle exports were made more difficult by the significant increase in value of the Brazilian real. Competition also intensified in growing markets such as China. The need to gain market share is increasing pressure on the prices of vehicles and vehicle part suppliers.

This market environment also impacted the performance of Automotive, particularly its earnings. Order intake decreased by 3% to €7.9 billion. Sales were slightly higher than the prior year at €8.0 billion, due to significant growth in the systems business, additional volumes and price-related growth at the North American foundries as well as increased sales from ongoing contracts. In addition, new production lines began operation in a large number of Automotive companies.

In the Body business unit, sales in 2005/2006 were almost level with the previous year at €2.9 billion. The North American foundries of ThyssenKrupp Waupaca benefited from continuing strong demand for trucks. Demand was particularly strong for products for medium and heavy trucks as well as construction and agricultural equipment. ThyssenKrupp Umformtechnik began production of stampings for a new van and a luxury class vehicle. Sales of the Body business units were severely impacted by the collapse in demand for sport utility vehicles, previously very popular in the USA. This resulted in significant volume decreases in the North American stamping plants. Business at ThyssenKrupp Sofedit was impacted by lower demand from French automobile manufacturers. The decrease in sales at ThyssenKrupp Drauz Nothelfer was due to lower market volumes as well as stiffer competition on the European production equipment market.

THE MARKET ENVIRONMENT

IMPACTED BUSINESS IN THE

AUTOMOTIVE SEGMENT.

The Chassis business unit increased its sales by 6% to €3.7 billion in the reporting period. This pleasing development was due among other things to a significant increase in systems business. As well as the start of production of axle assembly plants in Leipzig and Mexico, the three plants of ThyssenKrupp Budd Systems in London, Columbia and Fowlerville recorded significantly higher orders. At ThyssenKrupp Umformtechnik, ThyssenKrupp Presta SteerTec USA and ThyssenKrupp Bilstein Suspension, new orders from various German auto manufacturers went into production. ThyssenKrupp Tallent Chassis also reported increasing order numbers. Sales of the business unit were adversely impacted by lower orders from US manufacturers in particular. Divestments also had a negative effect on sales.

The Powertrain business unit achieved sales of €1.7 billion. Favorable factors were the start of production on various crankshaft and camshaft orders, price increases in South America, and exchange rate effects. In the Transmission & Driveline Components business, numerous programs were launched for German, French and American auto manufacturers. Lower truck output and massive competition in the area of 4-cylinder car crankshafts had a negative impact on sales.

### Earnings

The Automotive segment returned a loss of €174 million, compared with a profit of €118 million a year earlier. The loss was mainly due to restructuring expense and impairment charges on goodwill and property, plant and equipment. The impairment charges resulted primarily from the initiation of the disposal of the North American body and chassis business, but also from the deterioration in the situation in Germany for body lines and tool/die making. Non-recurring expense for restructuring and impairment charges amounted to €339 million. This was set against disposal gains of €35 million.

Operating profits in the Body business unit, i.e. disregarding non-recurring expense, fell short of the prior-year level. This was mainly due to declining workloads at the North American and French stamping plants and higher scrap prices at the American foundries.

The Chassis business unit increased its operating income, thanks to improved operating performances at the British stamping plants and in the areas of steering and suspension.

The Powertrain business unit failed to match the high operating earnings of the previous year. Profits were impacted by the development of the exchange rate for the Brazilian real against the US dollar.

### Significant events

The Automotive segment further optimized its portfolio in 2005/2006. In the USA, the plastics plants and the ThyssenKrupp Stahl Company aluminum foundry were sold. The closure of the Detroit plant of ThyssenKrupp Budd began on September 30, 2006. In addition, the operations of Aluminiumfeinguss

AUTOMOTIVE CONTINUED  
ITS PORTFOLIO OPTIMIZATION  
IN 2005/2006.

Soest are no longer part of the portfolio. On the other hand there were various acquisitions. We increased our shareholding in Liaoyang KS Automotive Spring, a manufacturer of coil springs, from 30% to 60%. In addition, we purchased the remaining shares in ThyssenKrupp Presta SteerTec held by DaimlerChrysler.

The operations of the Automotive segment are being realigned. The reasons for this are the well-known restructuring requirements of the body and chassis business, especially in North America. On October 16, 2006, an agreement was signed to sell the North American body and chassis operations with sales of around €1 billion and 3,500 employees to the Canadian company Martinrea International, Ontario.

THE NORTH AMERICAN BODY  
AND CHASSIS BUSINESS WAS  
SOLD IN OCTOBER 2006.

### Capital expenditures

Automotive invested €448 million in the reporting period, with depreciation at €323 million. The focus was again on capacity adjustments to meet new customer orders. In the Body business unit, welding capacities in the UK were expanded to fill an order for stampings and welded parts from a Japanese auto manufacturer. ThyssenKrupp Waupaca expanded its melting capacities in the USA to permit further sales growth. In France, ThyssenKrupp Sofedit increased its capacities with a second hot stamping line. At ThyssenKrupp Umformtechnik, a newly built body stamping plant began operation in Bielefeld, while in Ludwigsfelde investment was carried out to expand the stamping and assembly lines.

In the Chassis business unit, the welding, stamping and assembly lines were adapted to meet new orders. ThyssenKrupp Automotive Tallent expanded its welding and assembly capacities in the UK for the production of front and rear axle components of a large car platform. In Germany, ThyssenKrupp Umformtechnik began building new production lines for subframes and control arms. In India, stamping capacities for the Asian market are being expanded. ThyssenKrupp Automotive Systems invested in new production lines for the manufacture of axle components in Brazil. ThyssenKrupp Presta also adapted and expanded its production lines to meet new orders for steering columns and steering gears. ThyssenKrupp Bilstein did likewise for the production of shock absorbers, stabilizers and springs.

In the Powertrain business unit, ThyssenKrupp Gerlach modernized and expanded its production capacities for forged crankshafts. An induction hardening facility is being built for the production of large crankshafts. Investment was also carried out in North America and Brazil to increase crankshaft production capacity. We are setting up a company with a partner in China to move into the production of forged truck crankshafts on the Asian continent. ThyssenKrupp Presta invested in new production lines to meet orders for assembled crankshafts. A new assembly and grinding facility is being set up at the Chemnitz location. ThyssenKrupp Präzisionsschmiede also expanded its production capacities to meet encouragingly high demand for warm forged differential bevel gears.

## TECHNOLOGIES

### Technologies in figures

		2004/2005	2005/2006
Order intake	million €	5,643	7,968
Sales	million €	5,765	6,012
Plant Technology	million €	2,223	2,266
Marine Systems	million €	1,674	1,932
Mechanical Engineering	million €	1,865	1,810
Transrapid	million €	21	17
Consolidation	million €	(18)	(13)
Income*	million €	40	357
Employees (September 30)		28,042	27,492

All figures relate to continuing operations. \* before taxes

TECHNOLOGIES ENJOYS SUCCESS  
ON THE WORLD MARKET WITH  
HIGH-TECH PRODUCTS.

#### Order intake and sales: On profitable growth track with leading-edge technology

The Technologies segment is a high-tech engineering group which holds leading market positions worldwide and boasts innovative system and engineering expertise. Its capabilities are focused on systems, plants and components as well as associated services. The market environment in the reporting period was favorable. Order intake totaled €8.0 billion, up 41% from the prior year. Sales increased significantly by 4% to €6.0 billion. The order backlog at the end of the reporting period was €10.7 billion, 19% higher than a year earlier.

The Plant Technology business unit recorded strong growth in orders, due above all to stable raw material demand worldwide. The foreign markets continued to show high growth. Thanks to the price trend in crude oil and gas, countries in the Middle East were able to push ahead with investments in the industrial sector. The business unit also profited from rising demand for its technologies for oil sands mining projects. Sales at Plant Technology were again at a high level, reflecting above all significant growth in cement plants and materials handling/mining equipment.

Marine Systems also increased its order intake significantly from the prior year. The business unit won several large contracts, including a submarine modernization contract for Singapore as well as orders for two mega yachts and numerous container ships. Sales increased substantially due to the inclusion of the HWD group for the full fiscal year. In addition, sales from existing orders were higher and the volume of repair business also increased.

Order intake at Mechanical Engineering decreased, but only as a result of disposals. Excluding these, orders increased significantly. The business unit benefited from continuing high demand for construction equipment and general engineering components. Business in large-diameter bearings for wind turbines was again at a high level. High raw material costs had a negative effect. Sales were

slightly lower than a year earlier due to disposals. Excluding these, however, sales showed a pleasing increase. The positive trend in large-diameter bearings and construction equipment components played a major part in this.

The order situation in the Transrapid business unit improved. Activity focused on the planned extension of the Transrapid line in Shanghai and the 37-kilometer Transrapid link from Franz-Josef-Strauß Airport to Munich Central Station. Sales were level with the prior year.

### Earnings

The Technologies segment increased its income from continuing activities before taxes by €317 million to €357 million. All business units achieved significant improvements in their operating earnings. The disposal of low-profit areas in fiscal years 2004/2005 and 2005/2006 also had a positive effect. The MetalCutting business unit sold in October 2005 is included in discontinued operations; the prior-year comparative figures have been adjusted accordingly.

The Plant Technology business unit generated a nine-figure profit. This significant increase was based on improved earnings from orders, higher sales of cement plants and materials handling equipment and the absence of restructuring expenses which impacted negatively on the previous year. In addition, the fair value recognition of currency hedges had a positive effect. The overall situation for foreign projects in the plant and mechanical engineering activities was very good thanks to strong demand for raw materials, energy and petrochemical feedstocks. All operating groups in the Plant Technology unit benefited from this.

Marine Systems also returned significantly higher earnings. Positive effects came from the absence of restructuring expenses, which impacted the prior year, higher sales from orders in hand, increased capacity utilization and a greater volume of repair business.

Mechanical Engineering increased its profit into the three-figure millions and thus provided the biggest contribution to the earnings of the Technologies segment. This was partly due to high capacity utilization as a result of stronger demand, but also to the elimination of loss-making areas and the absence of expenses from the fair value recognition of currency hedges which impacted the prior year.

The Transrapid business significantly reduced its losses to an amount in the single-figure millions, mainly due to lower restructuring expense and lower depreciation.

### Significant events

Technologies acquired 60% of Atlas Elektronik, which will be run jointly with EADS in the future. As a leading electronics and systems company, Atlas Elektronik specializes in equipment and systems for naval forces. The company employs 1,750 people and has a balanced technology base and a product range for submarines and surface ships. It is regarded as one of the market leaders in the development of integrated sonar systems for submarines and is a longstanding supplier to, and systems partner of, ThyssenKrupp Marine Systems.

ALL BUSINESS UNITS IMPROVED  
THEIR EARNINGS IN THE  
TECHNOLOGIES SEGMENT.

As well as acquisitions, Technologies also disposed of non-core operations in the reporting period. The Noske-Kaeser group and the steam turbine business of B + V Industrietechnik were sold.

### Capital expenditures

Technologies invested €300 million in the reporting period; depreciation amounted to €134 million. The spending focused on programs to increase the efficiency of production processes. At Berco in the Mechanical Engineering business unit, the rationalization of roller assembly was continued with the commissioning of highly automated assembly lines. Other major projects were mainly aimed at increasing capacities.

The Marine Systems business unit completed a ship repair center in Emden. The largest lathe in northern Europe was installed at the Hamburg site; it can machine workpieces up to 20 meters long and up to three meters in diameter. Hellenic Shipyards in Skaramanga, Greece, invested in two shipyard cranes to create the conditions for repair business and modular construction in the newbuilding business.

The Mechanical Engineering business unit continued the strategic expansion of large-diameter bearing production in the reporting period and began building up a ring rolling mill in China.

THE LARGEST LATHE IN NORTHERN EUROPE WAS INSTALLED AT THE HAMBURG SHIPYARD.

## ELEVATOR

### Elevator in figures

		2004/2005	2005/2006
Order intake	million €	4,151	4,690
Sales	million €	3,773	4,298
Central/Eastern/Northern Europe	million €	1,209	1,282
Southern Europe/Africa/Middle East	million €	498	571
Americas	million €	1,485	1,804
Asia/Pacific	million €	419	453
Escalators/Passenger Boarding Bridges	million €	247	306
Accessibility	million €	134	167
Consolidation	million €	(219)	(285)
Income*	million €	355	391
Employees (September 30)		34,151	36,247

All figures relate to continuing operations. \* before taxes

### Order intake and sales: Market presence further expanded

The product range of the Elevator segment includes elevators, escalators, moving walks, passenger boarding bridges as well as accessibility products for the elderly and disabled such as stair and platform lifts. The company further expanded its market presence in all areas in the reporting period. Following the large orders in previous years, the focus this time was more on small and medium-sized orders. In sum they resulted in another successful year. Order intake increased significantly by 13% to €4.7 billion, while sales increased by 14% to €4.3 billion.

This encouraging performance was due among other things to the implementation of our cross-selling strategy. Cross-selling is based on leveraging customer satisfaction to create demand for other products offered by the segment. This strategy has led to positive results in the airport sector in particular where we are strongly represented in several product areas

The Central/Eastern/Northern Europe business unit again achieved higher order intake and sales. The increase was mainly due to the activities in the United Kingdom, France, the Benelux countries and Eastern Europe. Despite continuing price pressure, the other markets recorded a stable business trend. In Switzerland, the first-time inclusion of Trapo Küng had a positive effect.

The Southern Europe/Africa/Middle East business unit achieved significant growth in sales. Order intake was lower due to the major orders received for Dubai Airport in the previous year. Excluding this effect, order intake increased, particularly as a result of new infrastructure projects in Spain. In the other markets, the volume of business was maintained or slightly increased, except in Portugal, where the realignment of the new installations business resulted in a decrease.

Strong growth in both order intake and sales was recorded by the Americas business unit. All regions contributed to this, with the new installations business in North America being particularly successful. In addition, the modernization and the service operations were further expanded. Exchange rate factors had a positive impact.

In the Asia/Pacific business unit, order intake and sales were significantly higher than a year earlier. Exchange rate developments also had a positive effect here. In China, the business trend was again upward. The market environment in South Korea remained difficult. Higher service sales were unable to offset weaker sales of new equipment. The operations in Australia, India and Southeast Asia further expanded their business volume, among other things due to the inclusion for the first time of the Indonesian and Taiwanese companies.

The Escalators/Passenger Boarding Bridges business unit showed strong growth in order intake and sales. The escalator business profited in particular from the positive new installations trend, but the volume of business in passenger boarding bridges was also higher than a year earlier as a result of growth in air traffic.

GROWTH IN AIR TRAFFIC BOOSTED  
DEMAND FOR PASSENGER BOARDING  
BRIDGES.

The Accessibility business unit recorded substantial growth in both orders and sales. All of the operations in Europe and North America contributed to this. The effect was reinforced by the first-time inclusion of Ceteco in Italy and the addition of the accessibility operations in Spain and Norway which were previously supported by the elevator organization. The operations in the UK were sold.

## Earnings

The Elevator segment achieved a profit of €391 million, compared with €355 million a year earlier. Income in the Central/Eastern/Northern Europe business unit decreased slightly due to lower earnings from the new installations business. This was countered by efficiency improvements and higher workloads at all the European production plants. The newly acquired activity in Switzerland also made a positive contribution.

The Southern Europe/Africa/Middle East business unit improved on its prior-year profits. In Spain, the business unit achieved significantly higher earnings, while all other regions matched their good prior-year performance despite increasing price pressure. There were also positive contributions to income from the newly acquired companies in Italy and Egypt, which were included for the first time, and the absence of expense for the valuation of currency derivatives, which impacted the previous year's figures.

The Americas business unit returned substantially higher profits. Growth in North America was mainly driven by efficiency enhancements, especially in the production area, and the systematic expansion of the service business. The Latin American activities, particularly in Brazil, also achieved significant earnings improvements. The higher average value of the us dollar also resulted in translation gains.

The Asia/Pacific business unit returned a loss in the reporting period due to developments in South Korea: sharply increased competition in the new installations market resulted in a significant decline in earnings. An extensive restructuring program also impacted income. By contrast, the activities in China, India and Southeast Asia returned higher profits. The newly acquired Taiwanese activities also made a positive earnings contribution.

The Escalators/Passenger Boarding Bridges business unit achieved a higher profit. The escalator activities matched their prior-year performance. Passenger boarding bridge construction benefited from the significant growth in air traffic. The absence of expense for currency hedges, which had a negative impact a year earlier, also contributed to the earnings improvement.

The Accessibility business unit achieved a sharp increase in income, with contributions from both the European and the North American activities. Added to this came positive earnings contributions from a newly acquired Italian company.

### Significant events

Several acquisitions contributed to the growth of the Elevator segment in 2005/2006. In the us state of Florida, our modernization and service operations were expanded with the acquisition of Atlantic Elevator Sales & Service. ThyssenKrupp Elevator now has its own market presence in Taiwan following the acquisition of Sun Rhine Enterprises at the end of 2005.

The growth strategy was also continued in Italy with the acquisition of SIAR, a company specializing in maintenance and service. Our first Serbian subsidiary, ThyssenKrupp Elevatori Serbien, began operation in Belgrade.

The segment strengthened its market position in passenger boarding bridges in South America, Europe and North Africa with the acquisition of the TEAM companies in Italy and the UK and of Trabosa in Spain. The Accessibility business unit set up a subsidiary in Portugal, ThyssenKrupp Acessibilidades, Unipessoal.

### Capital expenditures

Capital expenditures in the Elevator segment amounted to €164 million, with depreciation at €52 million. Spending on property, plant and equipment focused mainly on maintaining existing operations. In addition, a factory was built in Zhongshan, China, to produce escalators and passenger boarding bridges. However the majority of the investment went on acquiring shareholdings and numerous smaller service packages in various countries.

ACQUISITIONS IN THE USA, ASIA  
AND EUROPE ENSURED HIGHER  
SALES AT ELEVATOR.

## SERVICES

### Services in figures

		2004/2005	2005/2006
Order intake	million €	12,655	14,602
Sales	million €	12,678	14,204
Materials Services Europe	million €	5,773	6,449
Materials Services North America	million €	1,779	2,330
Industrial Services	million €	1,390	1,716
Special Products	million €	3,536	3,650
Discontinued operations/Consolidation	million €	200	59
Income*	million €	261	482
Employees (September 30)		35,067	40,163

All figures relate to continuing operations. \* before taxes

### Order intake and sales: Record results

The Services segment is focused on material and process services for the production and manufacturing industries. Successful portfolio optimization, efficiency increases and sales initiatives combined with a much improved raw and industrial material market made fiscal 2005/2006 a record year. Sales were 12% higher at €14.2 billion. All the companies and operations established or acquired in the reporting period performed well and contributed to the success.

The Materials Services Europe business unit bettered its strong prior-year figures. Sales increased by 12%. Thanks to good customer and supplier relationships and a sophisticated warehouse and logistics organization, business in material services was very successful. Levels of capacity utilization in key sectors such as engineering, plant construction and the automotive supply industry were very high. In Germany, integrated supplies of products and services performed very well. The operations in France continued to perform at a high level. In Spain and Portugal, too, we equaled our prior-year figures. Sales in Eastern Europe showed a rising trend, above all in Hungary, Poland and the Czech Republic. There were demand overhangs in almost all product areas. Due to the strong demand delivery times on the procurement side increased drastically and sales prices rose substantially, particularly for stainless steel, nonferrous metals and rolled steel.

The growth in the NAFTA region was even more pronounced than in Europe. The Materials Services North America business unit increased its sales by 31% through internal and external growth, and further strengthened its position on the market. New performance programs and acquisitions were very successful. Despite the slowing US economy, demand increased in all sectors relevant to the business unit. As in Europe, prices rose sharply for rolled steel, stainless steel and tubular products and especially for nonferrous metals.

The fast growing us materials market was likewise the main reason for the 24% sales increase in the Industrial Services business unit, which also performed well in the highly fragmented European market. In Scandinavia, capital spending by the petrochemical industry contributed to a significant increase in

GOOD CUSTOMER AND SUPPLIER  
RELATIONSHIPS ARE THE KEY TO  
SUCCESSFUL BUSINESS.

business. Sales initiatives to win new customers and improve customer penetration had a pleasing effect, as did the first-time inclusion of the new companies ThyssenKrupp Xervon Energy and RIP in Brazil. The operations in Germany also recorded growth. The in-plant logistics and production support operating groups were further expanded. The energy sector was a major customer. By contrast, the construction-related operations suffered from the weak state of the German market and low public spending; however this was offset by the continuing outsourcing trend.

Sales of the Special Products business unit improved 3% from the high level of the prior year. The raw materials and in particular the engineering operations made significant progress with numerous new projects. Key factors in this were a pleasing level of domestic business, a strong increase in exports and a continuing sharp focus on customer-specific services and integrated solutions. Sales of rolled steel in the Far East were down from the extremely high level of the prior year. On the other hand, tubular products performed very well with numerous new contracts. Sales here were much higher than a year earlier. Technical trading benefited from a very good level of business, including in the offshore area. The alloy and metal distribution business also performed well. Sales of Chinese blast furnace and foundry coke and of coal were slightly weaker. Prices for imported coke from China as well as freight rates decreased significantly compared with the prior year.

### Earnings

SERVICES ALMOST DOUBLED  
ITS PROFITS, MAINLY THROUGH  
OPERATING IMPROVEMENTS.

The Services segment reported earnings of €482 million, up €221 million from a year earlier. In addition to improvements at operating level, the absence of now-sold loss-making areas also had a positive effect.

The Materials Services Europe business unit, which also includes the South American and Asia businesses currently being built up, made the biggest contribution to income, improving significantly on the very good profit of the previous year. Key to this was a substantial recovery on the global materials markets, resulting in a demand overhang in many product areas with drastic price increases. This applied to rolled steel, stainless steel, tubular products and in particular nonferrous metals. The further expansion of business in Eastern Europe and the success of the performance programs initiated in all areas also had a major influence.

The largest increase in profit was achieved by the Materials Services North America business unit. Earnings almost trebled as a result of the product range, with a very high share of non-ferrous metals, the targeted expansion of sales activities and the successful integration of new companies. Higher supplies of titanium and aluminum products to the booming aerospace industry also contributed to the earnings improvement.

The Industrial Services business unit achieved slight income growth. While the service business in North America more than doubled its profits, the unit was impacted by non-recurring charges for restructuring. This affected above all the process industry division in Germany, while the companies working for the metal industry and manufacturing sector achieved higher profits.

The Special Products business unit achieved a further significant improvement on its high prior-year earnings. All areas increased their profit contributions, and further gains came from the disposal of businesses.

### Significant events

Services completed its extensive portfolio streamlining program in the reporting period with the sale of the Hommel group and Krupp Druckereibetriebe. At the same time it added significantly to its activities, especially outside Germany. The main acquisitions centered on the further expansion of the US and Eastern European operations. Activities were also strengthened in South America, Germany and Asia. The aim was to further integrate materials services – for example processing, warehouse and inventory management, logistics, supply chain management – with industrial process services. The technical systems business was also further expanded.

In the area of materials services, the segment acquired 80% of Jupiter Stomana in Bulgaria. Under the new name ThyssenKrupp Jupiter Stomana the company will rapidly expand its warehouse and service business for rolled steel and tubular products. Stainless steel and nonferrous metals are to be added to the range. Services strengthened its capabilities in the UK with the acquisition of Metalfast. The company offers services in the area of aluminum and has various warehouse and processing sites. In China, the segment established the materials services provider ThyssenKrupp Materials Shanghai together with a local partner.

In Europe and North America, Services will acquire the aerospace service business of Alcoa. The segment is thus expanding its activities in the distribution and warehousing of aluminum materials to include high-quality processing services for aircraft manufacturers. We strengthened our position in copper and brass distribution in Canada with the acquisition of the operations of VPK Metals. In addition, the industrial service, warehouse and logistics operations of the Hearn group in the USA and Canada were acquired.

In Brazil, Services acquired majority shareholdings in the industrial service providers RIP Serviços Industriais and RIP Comércio. RIP provides fire-proof coating, insulation, corrosion protection and scaffold services primarily for the chemical, petrochemical, aluminum, paper, energy and mining sectors. In Germany, the industrial services operations were expanded with the acquisition of the German service companies of the Standardkessel group. The companies, now trading under the name ThyssenKrupp Xervon Energy, specialize in energy plant, power plant and incinerator services as well as the refractory lining of boilers.

### Capital expenditures

Capital expenditures in the Services segment amounted to €393 million, with depreciation at €128 million. In the growing Polish market Services invested in the expansion of a new service center for materials, the largest of its kind in Eastern Europe with a warehouse area of roughly 70,000 square meters. In Germany, the track engineering business invested in a rail welding plant and a facility for reconditioning and reprofiling used rails. The remaining investment focused on maintaining existing operations, opening up new sales channels and acquiring patents. Other important areas were the expansion, modernization and process optimization of the warehouse business, particularly in Germany, North America and Asia.

MATERIAL AND PROCESS

SERVICES TO BE MORE

STRONGLY INTEGRATED.

## CORPORATE

CORPORATE INCLUDES VARIOUS  
SERVICE AND NATIONAL HOLDING  
COMPANIES.

Corporate embraces the Group's head office including financial and insurance service providers as well as other service companies and the national holding companies. Following the sale of the residential real estate business, Corporate Real Estate Management is now also included in Corporate. Sales at Corporate were €148 million, compared with €138 million in the prior year.

Expenditure in the reporting period amounted to €230 million before taxes, an improvement of €152 million from the prior year. This comparison does not include the non-recurring charge allocated to Corporate in the prior year in connection with the revaluation of the investment in RAG Aktiengesellschaft. The improvement is mainly due to the receipt in the 2nd quarter of the €153 million Dofasco break-up fee. The consulting costs incurred in this connection are also included in the results of Corporate. Other changes compared with 2004/2005 largely balance out. These include higher communications costs and costs for supporting research and development projects. Set against this were lower interest expense, lower pension costs and the absence of charges for risk provisions in the previous year. Net interest expense improved by €92 million to €(142) million. This was due to the elimination of net financial debt and a further decline in interest expense for pension obligations.

## INNOVATIONS

Innovations are the engine of our Group. They drive business, open up new product and service areas and manufacturing processes, and keep the Company fit for the future.

### MORE THAN €740 MILLION FOR RESEARCH AND DEVELOPMENT

ThyssenKrupp increased its research and development spending to €743 million in 2005/2006. €241 million was spent on basic research and development projects – including capitalized development costs –, significantly more than a year earlier. Customer-related development projects accounted for €230 million and technical quality assurance for €272 million. Roughly a third of the spending on basic R&D was carried out outside Germany.

#### Research and development spending in million €

	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006
Basic research and development	191	183	191	186	241
Customer-related development*	156	156	182	266	230
Technical quality assurance	294	290	275	281	272
<b>Total</b>	<b>641</b>	<b>629</b>	<b>648</b>	<b>733</b>	<b>743</b>

\* including outside R&D funds and public funding

The Group's 85 international development centers employ over 3,300 people. Most of our scientists and engineers are specialized in materials, production, process and electrical engineering. We work closely with universities and research institutes in Europe, Asia and the USA to solve research and development tasks jointly. Our researchers and developers cooperate particularly intensively with the Group's partner universities in Aachen, Berlin, Bochum, Dortmund, Dresden, Hamburg-Harburg and with Tongji University in Shanghai. In October 2006 the Technical University Bergakademie Freiberg was added to this list. As well as many contacts at working level, a regular exchange of knowledge and staff takes place with all partner universities.

We have created a competency network in the Group to better utilize the Group's materials expertise. Almost 900 materials-related themes are already integrated in the network. Specialized contacts are available for further issues.

THE TU BERGAKADEMIE FREIBERG  
IS A NEW PARTNER UNIVERSITY  
FOR OUR GROUP.

### OUTSTANDING INNOVATION PROJECTS

In all segments of the Group development teams have created new products and processes which will contribute to ThyssenKrupp's market success in the coming years. We carried out over 2,000 projects with external university and research partners in the reporting period, mainly focused on innovations in the areas of materials and surface technology.

#### Steel innovations for the highest demands

In the field of materials our experts came up with many forward-looking product developments in the reporting period. Tribond is the name of a new three-layer steel composite material which researchers from the Steel segment developed in close collaboration with a customer. It combines the properties of different steel grades, is very hard and resistant to wear, and is nevertheless easy to form. These properties are important for example in the engineering sector and in car manufacture. The new material won 3rd prize in the 2006 ThyssenKrupp Innovation Contest.

OUR CONTROL SYSTEM FOR  
LASER WELDING LINES WON AN  
INNOVATION AWARD.

As part of a European research project the Dortmunder OberflächenCentrum DOC® developed new steel-based solar thermal collectors to utilize the heat of the sun. They can be used to heat up service water or heat buildings. In the future collectors like these could be fitted on houses in the form of facade elements.

A unique new pilot facility at Steel manufactures tubes incorporating varying cross sections and secondary design elements. The tubes are very close to final part shape and will allow auto manufacturers to eliminate complete production steps.

A precision control system for laser welding lines developed by us won an innovation award for laser technology. The control system makes it possible to position the laser welding head more precisely and allows higher speeds during welding. The innovation is used in the production of engineered blanks, a variant of tailored blanks featuring non-linear welds. Made up of individual sheets of different strength, thickness and finish, these blanks are processed into body and chassis parts in the stamping shops of automotive OEMs and can be tailored exactly to the actual stresses in the finished part.

### High-performance stainless steels and nickel alloys

One focus of innovation in the Stainless segment is the development of new surface finishes offering enhanced appearance and functionality. One such finish is Nirosta GritLine, which is comparable with the already established Rolled-On finish marketed by ThyssenKrupp Mexinox. It is an embossed finish which resembles popular polished finishes. The unbroken surface offers aggressive media less opportunity for attack and allows the use of less expensive base materials in many cases.

Outstanding among the new stainless steel finishes is the transparent coating Silverlce® UV. It makes stainless steel surfaces less sensitive to fingerprints, more resistant to scratches and easier to clean. It can be used to protect trim panels which have to meet high quality requirements. The product has already established itself successfully on the market. Silverlce® UV won 2nd prize in the 2006 ThyssenKrupp Innovation Contest.

Our new and improved nickel alloys are intended for the fast-growing aerospace and energy sectors. These high-performance materials are particularly resistant to corrosion and heat and are used for example for rotating parts in aircraft engines and land-based turbines. Material development work looks into the behavior of such superalloys in steam power plants operating at temperatures of 700°C, much higher than conventional thermal power plants.

In response to continuing high prices for raw materials, especially nickel, new materials have been developed which offer comparable corrosion resistance and strength with lower nickel contents. Despite dispensing with nickel, one of these stainless steel grades is more suitable for chemical process equipment than previously used materials.

### LIZA makes car manufacture faster

The materials competencies and automobile expertise of ThyssenKrupp come together in the LIZA Lightweight Design and Innovation Center in Bochum, run since its establishment in 2005 by the Automotive and Steel segments. Among other things LIZA is the consortium leader of a European project aimed at developing the 5-day car – building a car in only five days from order to delivery. One key technology in this EU-funded project is a new, highly flexible modular body concept.

Automotive won joint 2nd prize in the 2006 ThyssenKrupp Innovation Contest for a technically simple, low-cost steering column system based on electronically controlled components. In a crash the steering system adapts individually to loads and offers the driver maximum protection irrespective of seat position and weight. This cost-optimized solution based on magnetorheological elastomers can be used in virtually all cars. Iron particles are embedded in elastically deformable polymers and controlled by magnetic fields so that they build up friction instantaneously and in this way absorb crash forces.

### Further advances in fuel cells

Our marine engineers are driving fuel cell technology forward and have made key improvements to the methanol reformer system, in which hydrogen is recovered from methanol. They are also looking into the use of fiber composites in fin stabilizers, which reduce rolling of a ship in heavy seas. Advances have also been made in fin shape and design. The first prototypes will be tested at the end of 2006.

The Technologies segment won a US innovation award for the development and successful large-scale implementation of a new extractive distillation plant for recovering pure aromatics. The plant, which separates a mixture into its components through the addition of a solvent, offers customers the advantage of significantly lower capital and operating costs. The development of new and improved equipment for optimized oil sands mining also pursued the aim of greater cost efficiency.

### New global elevator

“synergy” will be the name of the Elevator segment’s first global machine room-less elevator. Thanks to standardized components, elevators can be planned quickly, produced at low cost and adapted easily to local requirements. The Synergy is ideal for residential buildings as well as for office properties. It has compact shaft dimensions; in Germany for example the system will also be available with reduced overhead and pit depths. Compared with hydraulic elevators its energy use is also low.

FUEL CELL TECHNOLOGY MAKING  
SIGNIFICANT PROGRESS IN MARINE  
ENGINEERING.

We have delivered the first machines of the newly developed type SF1000 to the 492 meter Shanghai World Financial Center. In September 2006 our technicians began building four double-deck elevators. Each designed to carry 2 x 2,000 kg, the elevators can travel at up to ten meters per second (approx. 36 km/h). They are scheduled to go into operation in early 2008. Another new development is an electronic speed governor. It offers the same reliability as its mechanical predecessor but requires less space, is quieter in operation and is more suitable for high speeds. An electronic sensor detects whether a car is traveling faster than its maximum speed. If so, safety devices are activated which brake the car and bring it to a halt.

#### **Innovative supply chain management**

For a major aircraft manufacturer in the USA the Services segment developed an “Integrated Supply Chain Services for Industrial Materials” program which came joint 3rd in the 2006 ThyssenKrupp Innovation Contest. It includes the development, installation and operation of a global customer-specific service center program. We have taken on the customer’s complete supply chain management for aluminum and titanium materials including warehousing, processing, quality assurance and added-value logistics services. These services can also be used for customers in other sectors to manage material procurement, logistics and processing.

#### **INNOVATION CONTEST: ONE IN FOUR ENTRANTS FROM OUTSIDE GERMANY**

TO DATE, ALMOST 300 PROJECTS  
HAVE BEEN ENTERED IN THE  
INNOVATION CONTEST.

The seventh ThyssenKrupp Innovation Contest took place in the reporting period. The contest is held annually to recognize development projects which combine a high degree of innovation with market potential and customer value. So far, a total of 279 development teams have taken part with their ideas. Roughly a quarter of them came from Group companies outside Germany. New and improved industrial products accounted for 53% of all entries, improvements in services for 27%, and innovative production technologies for 20%. The high number of entries underlines the innovative strength of ThyssenKrupp. The winner of the 2006 Innovation Contest was the Marine Systems business unit, which was awarded 1st prize for its air-independent submarine propulsion systems.

## EMPLOYEES

For customers and business partners, the image of the Group is shaped by our roughly 188,000 employees with their personal commitment and readiness to take on responsibility. In their individual areas of activity they contribute to the success of our Company worldwide. The future prospects of a company are decided in the minds of its employees.

### NUMBER OF EMPLOYEES INCREASED

#### Employees by segment

	Sept. 30, 2005	Sept. 30, 2006
Steel	31,634	30,647
Stainless	12,201	12,197
Automotive	45,537	39,446
Technologies	28,042	27,492
Elevator	34,151	36,247
Services	35,067	40,163
Corporate	1,300	1,394
<b>Group</b>	<b>185,932</b>	<b>187,586</b>

The number of employees increased in the year under review. On September 30, 2006 ThyssenKrupp employed 187,586 people worldwide, 1,654 more than a year earlier. The almost 1% increase was mainly attributable to the first-time inclusion of the RIP group in Brazil in the Services segment. In the Elevator segment the headcount rose as a result of the business expansion. At Automotive the workforce decreased in particular in the framework of the ongoing restructuring measures in the American automotive supply business.

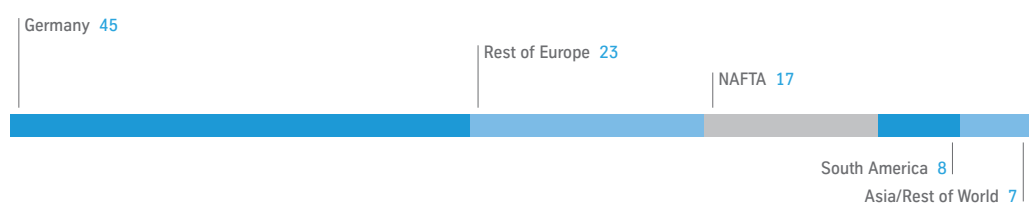
The number of employees decreased in Germany by 3,089 to 84,052, but increased outside Germany by 4,743 to 103,534. At the end of September 2006, 45% of employees were based in Germany, 13% in the USA, 7% in Brazil, and 6% in France. The remaining 29% of employees work in a total of 55 countries.

THE NUMBER OF EMPLOYEES  
INCREASED OUTSIDE GERMANY  
AND DECREASED IN GERMANY.

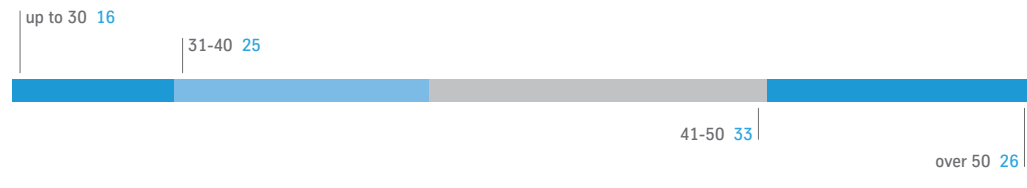
#### Employees by region

	Sept. 30, 2002	Sept. 30, 2003	Sept. 30, 2004	Sept. 30, 2005	Sept. 30, 2006
Europe	141,336	141,508	135,178	130,418	128,113
NAFTA	34,697	32,318	32,204	33,872	32,622
South America	7,933	8,707	9,846	10,474	13,618
Asia/Rest of World	7,288	7,569	9,808	11,168	13,233
<b>World</b>	<b>191,254</b>	<b>190,102</b>	<b>187,036</b>	<b>185,932</b>	<b>187,586</b>

#### Employees by region on September 30, 2006 in %



### Age structure of the German workforce Share of employees by age group on Sept. 30, 2006 in %



The average age of employees in Germany at the end of the fiscal year was 41.7 years. We have a balanced age structure in the Group, with 41% of employees under the age of 40. Details are provided on the above chart.

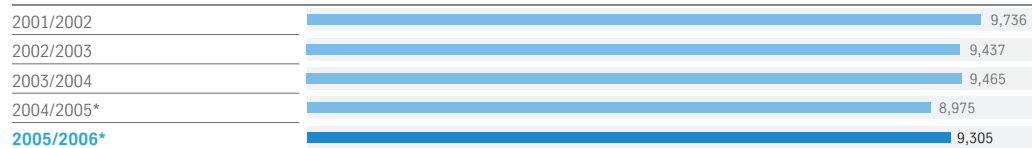
OCCUPATIONAL SAFETY HAS  
IMPROVED SIGNIFICANTLY IN  
THE PAST FEW YEARS.

The accident frequency rate continues to show a clear decline at the German subsidiaries. In fiscal 2005/2006 the number of reportable accidents decreased by around 10% to 11.4 accidents per 1 million hours worked. This means that over the past five years the accident rate has fallen by 33%, with 17.1 accidents per 1 million hours worked having been reported in fiscal 2001/2002. We expect a similarly encouraging reduction at our operations outside Germany, because our health and safety measures are incorporated in a cross-segment and cross-country reporting system.

Nevertheless, every accident is one accident too many. Health and safety at work play a key role in the success of the Company and are extremely important for the quality of life of our employees. To further enhance health and safety, we launched a Groupwide initiative in 2005 under the heading "Company target: Zero accidents". Key elements of the initiative are the establishment of an improved health and safety organization, new health and safety guidelines and a broad-based management training scheme.

Personnel expense increased by 4% to €9.3 billion in the reporting year. The chart below shows how personnel expense has developed over the past five years.

#### Personnel expense in million €



\* excluding expected return on plan assets and interest cost of pension and healthcare which are recognized as part of interest income/expense

### BASIC AND ADVANCED TRAINING CREATES PERSPECTIVES FOR THE FUTURE

For years we have provided training for young people beyond our own needs. We see this as part of our responsibility to society. In these times of high youth unemployment it is particularly important to offer young people high-quality training and thus improve their prospects on the labor market.

At September 30, 2006 a total of 4,139 young people were learning one of over 60 occupations offered by ThyssenKrupp in Germany. The Group offers the full range of industrial apprenticeships,

from industrial mechanics and lathe operators to electronic engineers and industrial clerks. Our apprenticeship training rate, i.e. the ratio of the number of apprentices to the overall workforce, remains pleasingly high at 5.4%.

ThyssenKrupp also has an exceptionally good track record with regard to the training pact between government and industry. In the three years since the pact was first made, we have improved the employment prospects of 636 young people – by providing 330 additional apprenticeships and 306 internships.

### **Future perspectives through further training**

To help employees meet the constantly increasing requirements created by innovations and market competition and to upgrade their skills, ThyssenKrupp offers an extensive further training program. In the year under review over 4,000 further training events were held in Germany. Around 65,000 – or eight out of ten – employees attended courses and seminars to improve their vocational qualifications. Key areas were quality management, data and information processing, sales training and management courses.

### **Employees benefit from modern company pension plans**

As a technology-based Group, ThyssenKrupp is strongly dependent on securing highly qualified employees with innovative ideas. In the competition to recruit such employees, pension plans represent a considerable incentive and are therefore an important instrument of HR policy aimed at retaining employees in the Company over the long term.

Flexible and calculable defined-contribution pension plans are increasingly replacing conventional defined-benefit plans for executives and other employees. By providing regular information on the status of the pension plan, we increase transparency and make our employees aware of the significant value of their pension benefits.

Alongside employer-financed pension plans, a wide range of employee-financed pension plans are available across the entire tax-relief spectrum. The Group-specific deferred compensation plans are particularly popular. The collective agreement on allowances for occupational pension schemes in the metalworking industry will increase interest in our pension plans.

### **Universities and graduates**

Recruiting talented and highly qualified employees at a young age and integrating them successfully is one of the key tasks of a forward-looking company. In the increasing competition for the best young graduates, ThyssenKrupp has gained a strong position. The Group is seen by university graduates as an extremely attractive employer. In addition, activities and projects carried out over recent years have helped establish rewarding partnerships with universities. Both these aspects – the Group's attractiveness as an employer and sustainable collaborations with universities – must be stabilized and further expanded.

For this reason we conduct activities at national and international level and maintain close relations with over 80 universities worldwide. A good example of this is our close cooperation with Tongji University in Shanghai, under which we also provide support for young academics. In Germany ThyssenKrupp works particularly closely with seven key universities: RWTH Aachen, TU Berlin, Ruhr University Bochum, Dortmund University, TU Dresden, TU Hamburg-Harburg and now also TU Bergakademie Freiberg. The

THYSSENKRUPP IS AN ATTRACTIVE  
EMPLOYER FOR YOUNG UNIVERSITY  
GRADUATES.

aim of these collaborations is to intensify the exchange of knowledge in areas of common interest such as education and teaching, technology and innovation. In addition, targeted support is provided for highly talented students. Activities range from workshops, excursions and joint projects through to fellowships and prizes such as the “ThyssenKrupp Student Award”. Intensive contacts are also maintained with TU Clausthal.

Our university marketing activities focus on selected target groups. These include for example young people who intend to take up a degree course at some stage in the future as well as talented female students on engineering or science degree courses. At TU Berlin we are cooperating with the university careers center for women, “femtec”, with a view to recruiting more women with technical qualifications to key positions in our Company.

Our efforts to attract young talent are rounded off by the ThyssenKrupp study support program. In addition to financial support and interdisciplinary seminars, the accompanying mentoring program has proved advantageous for students. Students on the program each have their own mentor, an experienced executive who can provide advice on personal and career development.

## EXECUTIVE POLICY AS KEY OBJECTIVE

OUR EXECUTIVE POLICY IS  
BASED ON PROMOTION FROM  
WITHIN.

Attracting and developing outstanding executives and specialists both internally and externally for the wide-ranging tasks in the Group remains one of our key objectives and has become even more important in view of the Company’s growth targets. Among our tried and trusted instruments is the potential and succession planning carried out annually in all segments worldwide, in which high potentials at all levels of the Group are identified. Yearly management development meetings of the Executive Board of ThyssenKrupp AG and the segment executive boards increase transparency regarding management qualifications, provide an overview of candidates and permit succession planning – including necessary contingency plans – for current and future vacancies at top management levels. This process ensures continuity and helps prepare suitable candidates for senior positions in the Group from an early stage.

The sustainable development of future executives is a key management task at ThyssenKrupp, including the Group Executive Board. Wherever possible and expedient, we aim to fill management positions from within so as to reduce costs for adjustment and create performance incentives for qualified employees.

### **Future management development with ThyssenKrupp Academy**

The strategic development of ThyssenKrupp places increasing demands on the Group’s management. This relates not only to management capacity and quality but also to the fostering of young talent and promotion of knowledge management in the Group. For this reason we have added three key new elements to our management development activities.

In summer 2006 we launched the Groupwide “Management Development Initiative”. The aim is to analyze the instruments, processes and structures of management development and on the basis of our findings develop a “ThyssenKrupp management development model” for the future. In a further

step the Executive Board decided to introduce rules for filling senior management positions in the Group. In addition, the ThyssenKrupp Academy was founded in the reporting year and began work in the fall of 2006.

The ThyssenKrupp Academy will be a place of learning and research, providing new impetus and fostering dialogue. It will support the development of around 2,500 executives and prepare them for new tasks. The programs and events of the Academy will contribute to the excellence of our executives. Internal and external experts with outstanding international experience in specialist fields and management will cooperate with the Academy and present and discuss new findings from the fields of management and technology.

The Academy's programs and courses are divided into four learning platforms. The Management School will teach management competencies based on a practical approach. In the Competence Forums participants can exchange knowledge relating to functions, themes and markets. In the Impact Workouts high potentials, i.e. junior executives with outstanding prospects, will work on concrete projects. In Horizon Sessions participants have the opportunity to look beyond the limits of their day-to-day work.

Located in the future ThyssenKrupp Quarter in Essen, the ThyssenKrupp Academy will send out a clear signal of integration and identification within the Group. It symbolizes the importance of learning as a natural part of management work. At the same time it makes clear that the ThyssenKrupp Academy is an institution of the Group for the executives of the Group and the Executive Board will seek dialogue with management employees on the campus. A report on the building of the new Group headquarters is given on page 89.

THE THYSSENKRUPP ACADEMY  
WILL BE BASED IN THE FUTURE  
THYSSENKRUPP QUARTER IN ESSEN.

### **Elevator establishes international management school in Madrid**

In October 2005 the Elevator segment opened the first international school for training executives in Madrid, the SEED School (Specialized Education for Executive Development). The school offers nine-month courses with a balanced mixture of practical and theoretical training. It is planned to use the concept to train executives throughout the segment.

### **Sharing in the Company's success**

Alongside opportunities to further their careers based on their individual performance and the chance to take on responsibility at an early stage, all employees at ThyssenKrupp benefit from an attractive compensation policy. In addition to a fixed salary, which is subject to the provisions of collective or individual employment contracts, there are further compensation components based on the Company's earnings and the stock price which are gradually being expanded. In the year under review, a further instrument was added to our performance-based compensation policy. In early 2007, selected executives who are not included in the Mid Term Incentive plan will have the opportunity for the first time to purchase shares in our Company at a specific discount. The amount of the discount depends on the development of TKVA in the reporting year.

In addition, in 2006 some 84,000 employees at our German subsidiaries had a further opportunity to purchase ThyssenKrupp shares on favorable terms up to a value of €270. In the meantime national programs have also been introduced in France, Spain and the United Kingdom. Details of the employee share program are provided on page 30.

## FINANCIAL POSITION

The Group's financial position improved further in the reporting period. The cash flow statements and balance sheet structure reflect the growth in the value of the enterprise. Capital procurement and investment are optimized through a central financing system. The three big rating agencies rate ThyssenKrupp as investment grade.

### CENTRAL FINANCING

The financing of our Group is managed centrally. The parent company ThyssenKrupp AG assumes responsibility for maintaining the liquidity of the Group companies. This is achieved in particular by the making available of funds within the Group financing system, by negotiating and guaranteeing loans or by means of financing support in the form of letters of comfort.

In order to cover the financial requirements of the Group companies, ThyssenKrupp AG and its financing companies make selective use of local credit and capital markets.

The fact that financing is centralized strengthens the Group's negotiating position vis-à-vis credit institutions and other market participants. Centralization is thus the basis for achieving cost-effective capital procurement and investment opportunities. Interest rate risk management and foreign currency management are likewise performed on a centralized basis. For more details, please turn to Note 30 on page 175-176.

Our intercompany cash management system reduces external financing requirements and optimizes the Group's financial and capital investments. The cash management system takes advantage of the surplus funds of individual Group companies to cover the financial requirements of other Group companies. Because intercompany sales are settled via intercompany financial accounts, bank account transactions are substantially reduced.

#### Maintenance of liquidity

Alongside a financial planning system with a planning horizon of several years, ThyssenKrupp operates a liquidity planning system on a rolling monthly basis with a planning period of five months. Both planning systems comprise all consolidated Group companies.

The financial and liquidity planning systems in conjunction with available committed credit facilities assure that ThyssenKrupp AG always has adequate liquidity reserves.

In addition to bilateral bank loans and syndicated credit facilities, financing is accomplished through money market and equity market instruments 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 171.

#### Rating

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-	A3	stable
Moody's	Baa2	Prime-2	stable
Fitch	BBB+	F2	"Watch negative"

THE INTERCOMPANY CASH  
MANAGEMENT SYSTEM REDUCES  
EXTERNAL FINANCING REQUIREMENTS.

## ANALYSIS OF STATEMENTS OF CASH FLOWS

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

Operating activities provided €3.5 billion during fiscal year 2005/2006 compared with €2.4 billion in the previous year. The increase in operating cash flows by €1.1 billion mainly resulted from the significant improvement in net income before depreciation, amortization and impairment of non-current assets, before deferred tax expenses and before gains on disposals of assets.

During fiscal year 2004/2005, operating cash flows of discontinued operations came to €(1) million.

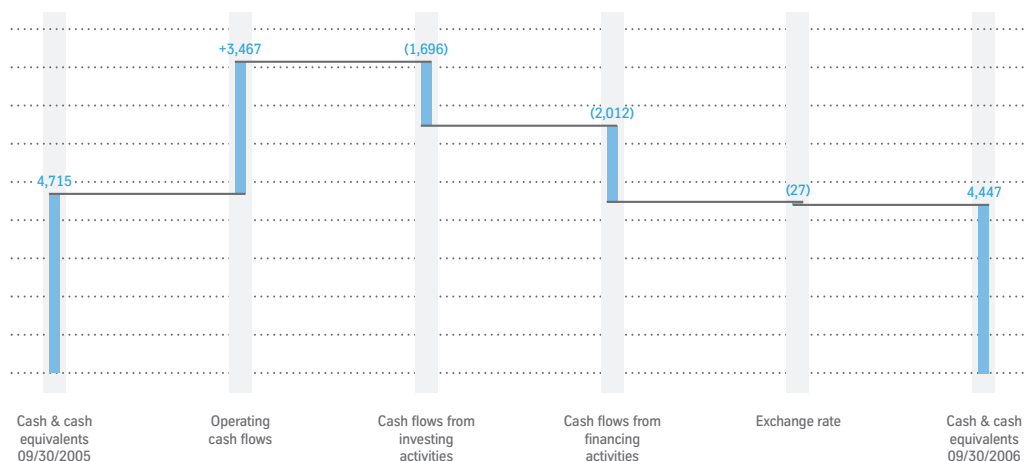
Cash flows from investing activities decreased by €2.6 billion to €(1.7) billion due to a decrease in proceeds from disposals by €2.1 billion to €0.4 billion as a result of the disposal of the Residential Real Estate business during fiscal year 2004/2005. Cash outflows for the purchase of investments accounted for using the equity method and other financial assets increased by €0.2 billion. Moreover, due to the acquisition of Howaldtswerke-Deutsche Werft (HDW) in fiscal year 2004/2005, acquired cash and cash equivalents decreased by €0.3 billion in 2005/2006.

During the previous year cash flows from investing activities of discontinued operations came to €31 million.

The free cash flow, i.e. the sum of operating cash flows and cash flows from investing activities, decreased by €1.5 billion to €1.8 billion during fiscal year 2005/2006. This decrease is especially due to the €2.1 billion decline in proceeds from the sale of businesses. During fiscal year 2005/2006 the free cash flow was used for dividend payments (€0.4 billion), further reduction of net financial debt (€0.9 billion) and in an amount of €0.4 billion for payments to repurchase shares (€0.7) billion), offset by cash inflows from the sale of treasury shares issued (€0.3 billion).

OPERATING CASH FLOWS  
INCREASED BY €1.1 BILLION  
IN 2005/2006.

### Change in cash and cash equivalents in million €



During fiscal year 2004/2005 cash flows from financing activities of discontinued operations came to €(11) million.

## ANALYSIS OF BALANCE SHEET STRUCTURE

The following balance sheet presentation includes assets and liabilities held for sale which are reported separately in the Group's consolidated balance sheets.

The balance sheet total increased by €429 million to €35,730 million.

Significant balance sheet line items, particularly inventories, trade accounts receivable and payable and total equity, increased compared with September 30, 2005. This is mainly the result of further price increases for raw materials, especially for nonferrous metals, and the cyclical business expansion. Property, plant and equipment and financial liabilities declined due to measures taken to reduce capital employed and disposals. Shifts in exchange rate relations, primarily the relation of the us dollar to the euro, which increased from 1.205 €/us dollar as of September 30, 2005 to 1.267 €/us dollar as of September 30, 2006, led to a decrease in the balance sheet total by €219 million. Deferred tax assets decreased whereas current income tax liabilities increased slightly and deferred tax liabilities increased significantly.

The increase in intangible assets by €110 million resulted primarily from additions to goodwill due to business combinations mainly within the Services segment and from the capitalization of development costs.

The initiated disposal of the North American body and chassis operations as well as the poor economic situation in parts of the Body business unit of the Automotive segment led to impairments of property, plant and equipment. Additionally, the fire damage in the Stainless segment reduced property, plant and equipment.

The increase in investments in companies accounted for using the equity method mainly resulted from the acquisition of Atlas Elektronik in the amount of €93 million.

Inventories climbed by €401 million to €7,410 million. This increase resulted primarily from the further rise in raw material prices, especially for nickel, as well as from increased quantities in the Services segment caused by sales expansion.

Trade accounts receivable as of September 30, 2006 were up by €334 million compared with September 30, 2005. The amount of sold trade accounts receivable as of September 30, 2006 increased only slightly (€44 million) compared with the previous year. The increase was attributable to sales expansion in terms of volume and price in all segments apart from Automotive and Technologies. Technologies posted a decrease in trade accounts receivable due to disposals of activities amounting to €207 million.

INTANGIBLE ASSETS

INCLUDE GOODWILL FROM

ACQUISITIONS.

Cash outflows for acquisitions, stock repurchases, dividends and the repayment of financial liabilities exceeded cash inflows from operating activities, resulting in a decrease in cash and cash equivalents by €268 million to €4,447 million.

Deferred tax assets declined by €82 million due to the use of tax loss carryforwards in Germany. The increase in deferred tax liabilities by €410 million resulted primarily from different inventory costing under IFRS and for tax purposes.

Total equity increased by €983 million to €8,927 million. The major reason for this rise was the net income achieved during fiscal year 2005/2006. In addition, actuarial gains associated with accrued pensions and similar obligations recognized directly in the statement of recognized income and expense raised equity by €385 million before taxes. Moreover, equity decreased due to the repurchase of own shares (€697 million), the dividend payment for fiscal 2004/2005 (€439 million) and currency translation adjustments (€90 million).

Accrued pensions and similar obligations in the reporting period decreased by €883 million to €8,111 million. This drop resulted mainly from an increase in the discount rate in most of the relevant currency areas. The higher market value of plan assets related to funded pension plans reinforced this effect by €130 million.

Other current and non-current provisions increased slightly compared with the previous year.

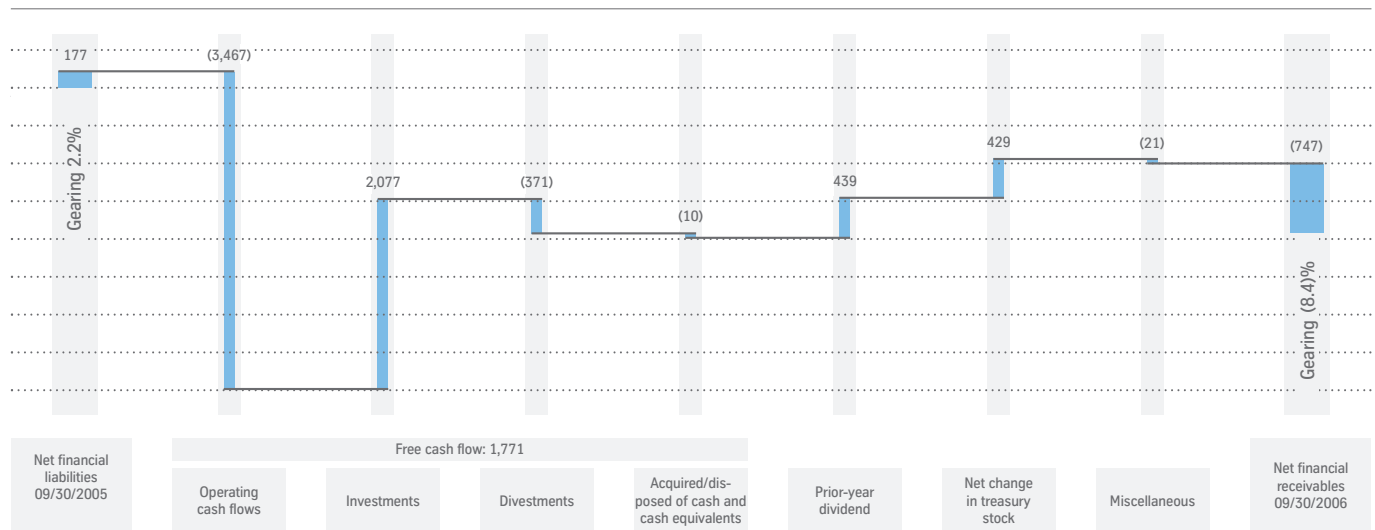
Current and non-current gross financial liabilities declined in total by €1,196 million. This resulted primarily from the redemption of two bonds in the Corporate segment amounting to €806 million in total.

Trade accounts payable increased by €681 million. This line item was also impacted by the previously described business expansion and price increases. In the Technologies segment trade accounts payable were reduced due to disposals.

Other liabilities also declined due to the business expansion, particularly in the Technologies and Elevator segments.

THYSSENKRUPP'S  
EQUITY INCREASED  
TO €8,927 MILLION.

**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 16 on page 158.

THE THYSSENKRUPP BRAND WAS  
FURTHER DEVELOPED IN THE REPOR-  
TING YEAR AND IS A MAJOR ASSET.

Of the assets not recognized, the ThyssenKrupp brand is a major intangible asset. It was further developed in the reporting year. In February 2006 we launched a new image campaign comprising an image film, TV commercials, press advertisements and outdoor advertising to further strengthen the brand. We regard the expenses for this as an investment in the future, because they give the brand an international profile, generate a presence on the markets and create transparency with regard to our products. Market studies confirm that the ThyssenKrupp brand enjoys a high recognition rating and is well liked by our customers.

The main off-balance financing instruments used by the Group are factoring programs. More details can be found under Note 19 on page 159.

## BUSINESS MANAGEMENT – GOALS AND STRATEGY

A growth-oriented strategy supported by value-based management at all key management levels provides the roadmap for our Group's future development. A further contribution to growth stems from the ThyssenKrupp best value enhancement program which reinforces existing strengths and removes weaknesses in all segments.

### STRATEGY: ON GROWTH TRACK

Following a period of consolidation, over the next few years ThyssenKrupp is to pursue a forward strategy aimed at achieving sustainably high earnings. All segments will contribute to this growth. The building of a new corporate headquarters in Essen will signal the strength of the Company going forward and at the same time reduce administrative costs and shorten decision-making paths.

#### Expansion of services and innovations

We aim both to strengthen our industrial activities and expand our position as a service provider. Our existing market and customer contacts in all segments provide a strong platform from which to offer our business partners further products and services. Through intensive innovation efforts and investment in new products and processes, we will also enhance our products and services to focus them even more sharply on market and customer needs. To this end, the ratio of research and development expenditure to sales is to be increased to 2%. In the reporting year this ratio was 1.6%. We will also focus systematically on the world market and further internationalize our product, production and customer structures.

#### Sales target €50 billion

We plan to achieve sales of €50 billion, 60% of which will be generated by the production of materials and capital goods. The remaining 40% will come from services. All segments are expanding the service side of their business.

For the steel activities – i.e. carbon and stainless – we plan to achieve sales of €16 billion to €19 billion. In capital goods we expect sales to reach €19 billion to €21 billion and in materials and industrial services the target is €13 billion to €14 billion. This strong expansion is not to be achieved at the expense of profit – a parallel increase in earnings is also planned.

Within a period of around ten years we plan to achieve Group sales of €55 billion.

#### Growth strategies in the steel business

In the Steel segment's carbon steel business, the growth strategy is focused on the markets of North America and Europe. In the NAFTA region we are aiming for a market share of 5% in high-quality flat products, while in Europe our target is over 13%.

Customers in both regions will be supplied with the 5 million tons of carbon steel slabs produced by our new steel mill in Brazil. The foundation stone for the new €3 billion mill was laid on September 29, 2006. Production is scheduled to start in early 2009. The mill will employ around 3,000 people and create a further 10,000 jobs at suppliers and service providers in the region. Offering optimized costs and quality in line with the Group's high standards, the slabs supplied from the Brazilian state of Rio de Janeiro will secure our market strategies for Europe and the NAFTA region.

STEEL'S STRATEGY REMAINS  
FOCUSED ON NORTH AMERICA  
AND EUROPE.

WE HAVE SEVERAL  
STRATEGIC OPTIONS IN  
THE NAFTA REGION.

In Europe we will strengthen our outstanding market position with additional investments. In Duisburg a new replacement blast furnace will be installed to secure our crude steel base. In addition we are investing €400 million in Duisburg to remove bottlenecks in individual production steps and rationalize the production flow.

In the NAFTA region we are pursuing various options. By acquiring the Canadian steel producer Dofasco we could quickly achieve a strong position on the North American market for high-quality flat products. This takeover is a high priority for us. As an alternative to the acquisition of Dofasco we are looking into establishing a new plant in the USA which could be built and used jointly by the Steel and Stainless segments. At the hub of this facility would be a hot strip mill which would mainly process slabs from the new steel mill in Brazil. The new plant would also feature cold-rolling and hot-dip coating capacities for high-quality carbon steel flat products. The search for a location is currently under way. The location must offer optimum logistics – for slab supplies from Brazil and for the distribution of end products to North American customers.

The Stainless segment, too, aims to expand its international position and continue to participate in the steady growth of the stainless market. The main focus is on the North American market. We are therefore examining the possibility of establishing extensive capacities for stainless flat products at the joint location with the Steel segment in the USA. The stainless steel slabs produced in a 1 mt capacity melt shop could be processed on the hot strip mill. In addition we aim to invest in a cold-rolling facility which will be designed initially to produce 325,000 tons of cold strip and 100,000 tons of pickled hot strip. Our Mexican stainless steel plant ThyssenKrupp Mexinox could then also be supplied with starting material directly from the new plant in the USA.

Stainless is the world market leader in stainless flat products and nickel alloys. Outside Germany it has production capacities in Italy with ThyssenKrupp Acciai Speciali Terni and in China with Shanghai Krupp Stainless, as well as the operations in Mexico.

In addition to the planned expansion, we aim to increase value added both in stainless flat products and in high-performance nickel alloys and titanium. To achieve this goal, a number of investments are planned both for the production plants and in the service center organization. By investing further in nickel alloys and titanium production, we will increase our share of the fast-growing aerospace and energy markets.

### **Innovative capabilities a strategic strength**

Technological competency and constant innovation are the key to the market for capital goods on which the Technologies segment operates. Following its concentration on high-earning business units, Technologies is now well equipped to maintain and further improve on the outstanding positions it has achieved in its individual areas of activity. Over the next few years we will strengthen our market position as an international supplier of leading-edge technology in mechanical engineering, plant construction and shipbuilding. International investments and acquisitions will contribute to this. For example, we plan to expand production of industrial large-diameter bearings in Germany, India, Japan and China.

In shipbuilding, the takeover of HDW has opened up new opportunities, especially for our innovative submarines with fuel cell propulsion. The acquisition of a 60% shareholding in Atlas Elektronik has also provided Technologies with strong capabilities in marine electronics. Our own expertise, for example in plant technology, is also in demand for the expansion of the Asian economies.

### Combination of Automotive and Technologies

The Technologies segment is now also a market partner for high-quality vehicle components and systems following the combination of our automotive business with the Technologies segment effective October 01, 2006. This integration focuses our automotive activities on core businesses with sustainable earnings potential and concentrates our innovation and marketing capabilities. As part of the planned realignment, our body and chassis activities in North America with around €1 billion sales and 3,500 employees were sold on October 16, 2006. The sale is to be closed by the end of 2006. In other regions we remain on expansion track. In China we have prepared the acquisition of the activities of the crankshaft manufacturer Tianrun, and further moves will follow on this auto market of the future. Following the integration of Automotive into Technologies, the ThyssenKrupp Group will in the future comprise the five segments Steel, Stainless, Technologies, Elevator and Services.

### Elevator business remains dynamic

In addition to expanding existing activities, our Elevator segment's strategy is focused on further strategic acquisitions, both in the highly industrialized countries and in the young growth regions of the world. Elevator now has a presence on the Italian market and has expanded its position in Spain and India. Service and production activities are contributing equally to the growth in existing business. An increasingly dense network of branches close to our customers safeguards our market presence. In addition, a global service strategy is designed to secure the high standards of our service activities at all locations worldwide: The strategy sets high standards for the work of our service technicians worldwide and guarantees the quality of services.

### Services: Focus on expansion

Our Services segment aims to continue its growth on the market for materials and industrial services. Acquisitions will support the expansion of existing business. The expansion strategy focuses on the NAFTA region, Eastern Europe and also South America and Asia. For example, the acquisition of an interest in the industrial services business of RIP reflects our expectations in South America. RIP is market leader in its sector and is represented at all key industrial locations in Brazil. In the materials area, the segment is vigorously pursuing its Eastern Europe strategy. In Asia it is increasingly setting up joint ventures with local partners.

SERVICES AIMS TO EXPAND IN THE  
NAFTA REGION, SOUTH AMERICA,  
EASTERN EUROPE AND ASIA.

### New ThyssenKrupp Quarter in Essen

To achieve our growth targets efficiently, we aim to optimize decision-making routes and administrative costs in the Group. For this, ThyssenKrupp plans to concentrate its main head office functions at the two locations of Duisburg and Essen over the next few years. The Steel and Stainless segment holding companies are already based in Duisburg. The six office buildings currently used in Bochum, Düsseldorf and Essen have around 150,000 m<sup>2</sup> of net floor area. Centralization in the new quarter in Essen will reduce the area requirement by around a third. The Group holding company, the holding companies of the three other segments and some operating units will be located there. Design and planning work is currently under way for the new quarter for around 2,000 employees. The move of ThyssenKrupp AG from Düsseldorf to Essen is scheduled for year-end 2008. Further sections of the quarter will be completed by 2010.

A high-quality architectural style is planned for the new quarter which will reflect the Group's innovation and internationality and set new standards in corporate architecture. In addition to the Group's office and administrative buildings, plans for the project include a multi-functional facility featuring the ThyssenKrupp Academy and a conference center, a hotel and further amenities. The form and function of the entire ensemble will be characterized by outstanding, modern and forward-looking architecture.

## VALUE-BASED MANAGEMENT

The Group is managed and controlled within the framework of 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 together with measures to enhance efficiency and growth and optimize capital employed are key elements of our management system.

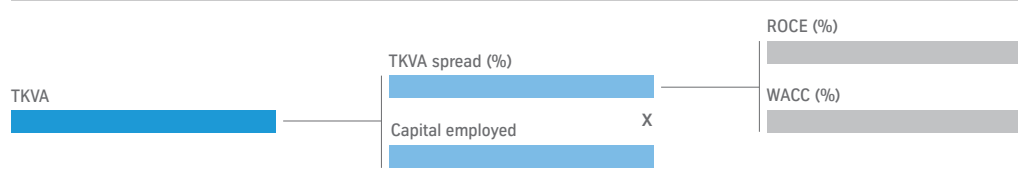
### Control concept secures Groupwide transparency

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 using 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 a measure 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

The central performance indicator for value-based management in the Group is ThyssenKrupp Value Added (TKVA). TKVA 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)



OUR INTEGRATED CONTROL  
CONCEPT SUPPORTS DECENTRALIZED  
RESPONSIBILITY.

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.

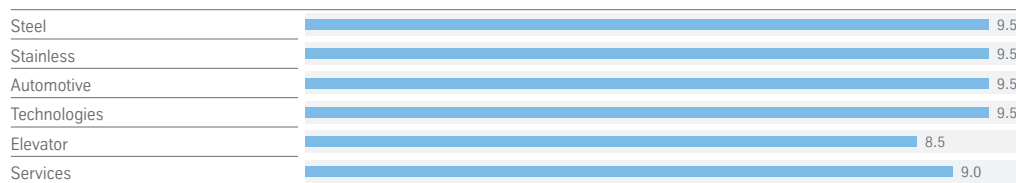
The weighted average cost of capital (WACC) is the minimum return demanded by investors and creditors. It is calculated on a pre-tax basis and comprises the weighted average cost of equity and debt as well as the interest rate for pension obligations.

- 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 5-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 is currently 9%. Since the business environment is constantly changing, the weighted average cost of capital is regularly reviewed and adjusted if necessary. Specific WACC figures are established for the segments which reflect their respective risk structures.

OUR OBJECTIVE IS A BALANCE  
OF VALUE DRIVERS AND CASH  
PROVIDERS.

**WACC for the segments** in %



GROWTH, EFFICIENCY AND  
OPTIMIZATION OF CAPITAL EMPLOYED  
ARE LEVERS TO INCREASE VALUE.

### Application of the value management system

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 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 94-95.

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)

	2004/2005						
	EBIT* (million €)	Capital employed (million €)	ROCE (%)	WACC (%)	Spread (% points)	TKVA (million €)	
Group	2,652	18,388	14.4	9.0	5.4	997	
Thereof:							
Steel	1,167	5,965	19.6	9.5	10.1	600	
Stainless	353	2,996	11.8	9.5	2.3	68	
Automotive	240	2,982	8.0	9.5	(1.5)	(43)	
Technologies	(179)	982	(12.9)	9.5	(22.4)	(220)	
Elevator	381	1,614	23.6	8.5	15.1	244	
Services	335	3,089	10.8	9.0	1.8	57	
	2005/2006						
	EBIT* (million €)	Capital employed (million €)	ROCE (%)	WACC (%)	Spread (% points)	TKVA (million €)	Change TKVA (million €)
Group	3,044	17,056	17.9	9.0	8.9	1,510	513
Thereof:							
Steel	1,477	5,937	24.9	9.5	15.4	913	313
Stainless	489	3,048	16.0	9.5	6.5	199	131
Automotive	(52)	2,938	(1.8)	9.5	(11.3)	(331)	(288)
Technologies	311	1,427	31.6	9.5	22.1	316	536
Elevator	423	1,876	22.6	8.5	14.1	264	20
Services	553	2,884	19.2	9.0	10.2	294	237

\* Earnings including discontinued operations before taxes and interest income/expense

The Group's earnings before taxes and interest increased by €392 million to €3,044 million in 2005/2006. The improvement in ROCE associated with this was reinforced by a reduction in capital employed. Average capital employed decreased by €1,332 million to €17,056 million. ROCE thus increased from 14.4% to 17.9%; the Group's WACC of 9.0% was thus again significantly exceeded.

TKVA increased by €513 million to €1,510 million. The improvement in the Group's profitability and TKVA is due particularly to the large increase in operating earnings but also to the divestment program to refocus the Group strategically.

In the Steel segment, earnings before interest and taxes increased by €310 million to €1,477 million thanks to the positive price and volume trends. With capital employed virtually unchanged, ROCE increased from 19.6% to 24.9%. The WACC of 9.5% was thus significantly exceeded and TKVA of €913 million was achieved. This is an improvement of €313 million from the prior year.

Earnings before interest and taxes at Stainless increased by €136 million to €489 million mainly as a result of the demand recovery that began in almost all market segments in early 2006, which in turn was accompanied by a steady increase in base prices. With capital employed slightly higher, ROCE increased from 11.8% to 16.0%. The WACC of 9.5% was exceeded, resulting in TKVA of €199 million. This represents an increase of €131 million from the prior period.

At Automotive, earnings before interest and taxes decreased by €292 million to -€52 million. This deterioration was mainly due to impairment charges in connection with the proposed divestments in North America but also reflected impairment charges and restructuring programs in various other areas of the segment. In addition, steel price increases could not be passed on to customers in full. With capital employed slightly lower, ROCE decreased from 8.0% in the prior year to -1.8% in 2005/2006 and was thus below the WACC of 9.5%. TKVA decreased by €288 million to -€331 million.

Earnings before interest and taxes at Technologies increased by €490 million to €311 million in the reporting period. ROCE improved from -12.9% to 31.6%. Significant operating improvements were achieved in all business units. The disposal of low-profit operations in the course of 2004/2005 and 2005/2006 also had a positive impact. With a WACC of 9.5%, TKVA reached €316 million, an increase of €536 million from the prior period.

In the Elevator segment, earnings before interest and taxes increased by €42 million to €423 million. However, capital employed rose by €262 million to €1,876 million, resulting in a slight decrease in ROCE by 1 percentage point to 22.6%. TKVA increased to €264 million compared with €244 million a year earlier.

In the Services segment, earnings before interest and taxes increased by €218 million to €553 million. This was mainly due to the improved situation on the international material markets but also reflected the absence of loss-making businesses sold in the meantime. Capital employed decreased by €205 million to €2,884 million. The two effects resulted in an increase in ROCE from 10.8% to 19.2%. TKVA improved by €237 million to €294 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 creating 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.

THYSSENKRUPP VALUE ADDED
AT STEEL WAS €913 MILLION
IN 2005/2006.

To further anchor value management in the strategic and operating decisions of the Group, we launched a broad-based communication and training initiative in March 2006. Under this program, several thousand ThyssenKrupp employees are receiving targeted training in the use of this value management system.

## THYSSENKRUPP BEST

The goals of our value enhancement program ThyssenKrupp best are to improve the Group's performance, build on its strengths and remove any weaknesses. For five years now the program has been contributing to improving earnings. In the reporting year alone, 1,453 new projects were launched to make our Company even better. The program is more successful than ever.

### Almost 6,000 projects worldwide

At September 30, 2006, ThyssenKrupp best comprised altogether 5,995 national and international projects with over 19,500 concrete measures and over 36,000 individual steps. Since the program was first launched in 2001, 3,239 projects have already been successfully completed. Almost 500 projects have been removed from the program because the Group has sold or closed the corresponding activities. Work focused on operating efficiency, sales/services, purchasing, performance quality and capital productivity. Further projects sought to further integrate employees and executives or intensify knowledge transfer within the Group.

In line with the concept of the program, the projects can in many cases be transferred to other areas or segments of the Group. The "Claims management in plant construction" project, for example, was further developed and optimized jointly by various Group subsidiaries; the processes developed are now in use in several segments.

The program is firmly established worldwide, with over 60% of projects taking place outside Germany. Teams are working on efficiency-enhancement projects at more than 400 locations in 38 countries. Some 3,500 projects were conducted in Europe, chiefly in Germany, France, Italy, Spain and the United Kingdom. Almost 2,000 projects took place on the American continent – in the USA, Canada, Mexico, Brazil and Colombia. Over 350 projects were launched in the Asia/Pacific region – mostly in China and Korea. Almost 200 projects were organized on a cross-country basis. In addition to the Group subsidiaries in Europe and North, Central and South America, an increasing number of Asian companies are participating in the program.

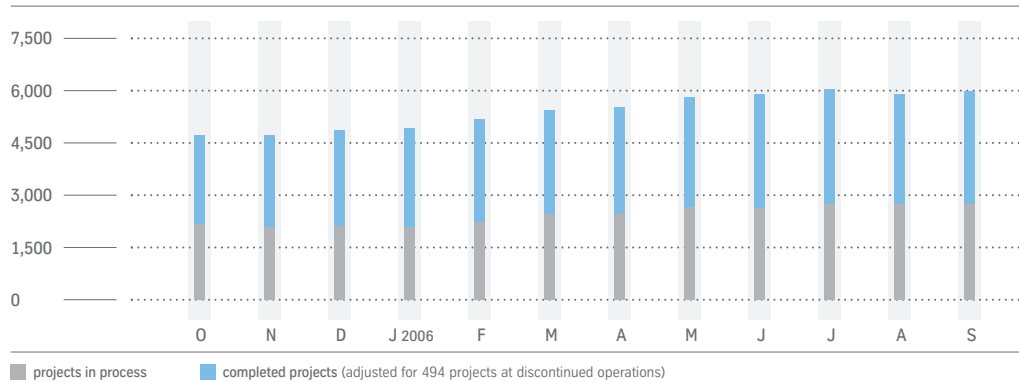
The responsible Executive Board members of ThyssenKrupp AG and the segment holding companies worked to drive the program forward. By visiting projects in Germany and abroad, they again underlined the high importance attached to the program in the Group.

OVER 60% OF BEST

PROJECTS TAKE PLACE

OUTSIDE GERMANY.

### ThyssenKrupp best projects worldwide 2005/2006



### Purchasing initiative adds new impetus

New impetus was added by the successful purchasing initiative, which achieved considerable cost reductions in the reporting year and now comprises more than 920 projects. Following the pilot phase, in which the first projects were launched and successfully concluded, the Groupwide roll-out began in 2005. The successes have been achieved through systematic worldwide use of strategic and operating methods made available centrally by Corporate Materials Management and rolled out in cooperation with all segments. For example, teams from the technology, quality, logistics and purchasing areas used the Global Sourcing methodology to investigate numerous product categories and identify new supply sources.

At the Best Practice Day Purchasing in November 2005, managers from all segments were able to find out about project ideas and purchasing tools and discuss applications in their segments with purchasers and technology experts. One focus was on cross-company project ideas, supported by purchasing tools such as supplier management, global sourcing and e-procurement. Many of these ideas were translated into projects in 2006.

### Awards for successful teams

In the year under review, ThyssenKrupp best Awards were again presented to the best project teams. All segments and the Group holding company were eligible to enter, and projects were judged by a panel on the basis of their financial results, scope and methodology. Since one of ThyssenKrupp best's key aims is to intensify knowledge transfer within the Group, judging focused above all on the extent to which project results can be transferred to other areas of the Group. Due to the excellent standard of work, four project teams won ThyssenKrupp best Awards. The coveted first prize was won by a team from the Technologies segment for its project entitled "Expansion of service activities" in project and order management for the cement and minerals industry. Second prize went to a project team from Services which explored new ways of reducing financial liabilities. Joint third prize was awarded to teams from Stainless and Elevator for the reduction of maintenance costs and the establishment of the SEED School. For more information on the SEED School, please turn to page 81.

FOUR PROJECT TEAMS RECEIVED  
 THYSSENKRUPP BEST AWARDS  
 FOR THEIR SUCCESSFUL ENTRIES.

## **MANAGEMENT COMPENSATION**

The overall compensation of Executive Board members comprises a number of compensation components: These are a fixed salary, bonus, long-term incentive components as well as additional benefits and pension plans. More details and a breakdown of individual compensation amounts can be found in the Compensation Report in the section “Corporate Governance at ThyssenKrupp” on pages 21-26. This Compensation Report, which has been examined by the auditors, forms part of the management report.

## RISK REPORT

Increasing corporate value, securing financial independence and making provision for individual risks are the key elements of ThyssenKrupp's risk policy. In the year under review our risk management system ensured that the risks were contained and the future viability of the enterprise is secure.

### RISK POLICY AND MANAGEMENT: AIMED AT INCREASING CORPORATE VALUE

The Group's risk policy is aimed at systematically and continuously increasing corporate value and achieving the mid-term financial key performance targets. The name and reputation of the ThyssenKrupp Group and the "ThyssenKrupp" brand are key priorities for the Group.

We accept reasonable and manageable risks the more they are associated with building and utilizing the core competencies of the Group. The opportunities they present must provide an appropriate increase in value. Risks connected with support processes are transferred to other risk carriers, provided this is economically expedient. 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.

Apart from this, the Group has a code of conduct which is set out in policies and other directives, compliance with which is supported by training and monitoring measures. Speculative transactions or other measures of speculative character are inadmissible. Our conduct toward suppliers, customers and society is marked by fairness and a sense of responsibility.

#### Efficient risk management system

The Executive Board of ThyssenKrupp AG has installed a systematic and efficient risk management system. Direct responsibility for early identification, control and communication of risks lies with the operating management of the risk holder; responsibility for monitoring lies with the next highest level.

Under the risk management system, the occurrence, status and significant changes of major risks are communicated by the Group companies bottom up, in line with 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 outside the normal reporting channels directly to the responsible offices of ThyssenKrupp AG.

The adherence of the Group companies to the risk management system and their risk control measures were examined by external and internal auditors in Germany and abroad. The findings made serve to further improve early risk identification and control.

#### Risk transfer controlled on a Groupwide basis

The central service provider Risk and Insurance Services GmbH controls the transfer of risks to insurers using global insurance programs in coordination with the Executive Board of ThyssenKrupp AG. To counter the risk of excessive deductibles, especially in the area of property insurance, the Group regularly prepares and evaluates risk and damage analyses. Work groups were also formed to develop joint and binding risk prevention standards and monitor adherence to these in regular audits. In association with

EARLY IDENTIFICATION AND MANAGEMENT OF RISKS ARE IMPORTANT ELEMENTS OF THYSSENKRUPP'S SYSTEM.

ThyssenKrupp Risk and Insurance Services, standing work groups were formed in the segments to develop and monitor risk improvement measures and common minimum standards relating to fire protection in the framework of a property insurance risk management system. In addition, internal and external audits are carried out.

## FINANCIAL RISKS

Central responsibilities of ThyssenKrupp AG include resource allocation and securing the financial independence of the Group; in this connection ThyssenKrupp AG is also responsible for optimizing Group financing and containing financial risks.

The procurement of funds in international financial and capital markets is effected in different currencies – predominantly in euros and us dollars – and with various maturities. The resulting financial liabilities 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 risk analyses is part of the Group's risk management system.

To contain the risks of the numerous cash 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 obliged 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 disclosed in detail on pages 175-180 in Note 30.

Generally, hedging of translation risks arising from currency conversion does not take place.

### Sale of real estate/companies and restructurings

To hedge against processing risks from the disposal of real estate, companies or other business activities and for restructuring measures in the Group, such risks that are probable are accounted for.

### Information security

To ensure the safe processing of IT-assisted business processes, the information technologies in use are continuously evaluated and adjusted. Measures to improve information security are being developed continuously to eliminate or at least minimize the risks relating to business processes between Group subsidiaries and with customers, suppliers and business partners.

### Pension and healthcare measures

The fund assets for the financing of pension liabilities are exposed to capital market risks. Pension obligations are subject to risks from increased life expectancies of beneficiaries and from obligations to

THE SECURITY OF THE INFORMATION  
TECHNOLOGIES USED IS OF GREAT  
IMPORTANCE.

adjust pension amounts on a regular basis. In addition, cost increases for healthcare commitments in the USA and Canada cannot be ruled out. Furthermore, in some countries there is a risk of significantly higher payments having to be made to finance pension plans due to increased statutory requirements.

### Litigation and claims for damages

A report on pending litigation and claims for damages can be found on pages 174-175 in Note 29.

### Real estate and environmental protection

The former use and continued ownership of real estate gives rise in particular to risks from contaminated sites and mining subsidence. ThyssenKrupp counteracts these risks with appropriate preventive measures and the scheduled fulfillment of remediation obligations. Insofar as the measures cannot be completed within a fiscal year, we recognize accrued liabilities in the requisite volume.

Rising standards in environmental protection and conservation of resources are also causing increased expense in other areas. On the other hand, the use of modern plant and equipment reduces charges and energy costs. In addition, the likelihood of environmental risks being realized is reduced by the growing number of subsidiaries with certified environmental management systems.

THE GROUP HAS ADEQUATE PROVISIONS FOR RISKS FROM CONTAMINATED SITES AND MINING SUBSIDENCE.

### Volatility of steel prices and dependency on the automotive industry

The volatility of steel prices and the dependency on the economic situation in the automotive industry have a significant influence on the economic development of the Group. However, the broad business portfolio, both productwise and geographically, has a stabilizing effect.

### Volatility on the energy markets

To counter the risk resulting from the continuous rise in electricity and gas prices since the beginning of 2005, the Group applies a structured procurement system on the electricity market and concludes or renews long-term gas supply contracts.

### Personnel risks

To safeguard and strengthen the competencies and commitment of management personnel within the Group, ThyssenKrupp will continue to position itself as an attractive employer and strive for long-term retention of senior executives in the Group. In particular, the creation of perspectives, target group-oriented mentoring, the early identification and promotion of potential executives and an attractive incentive system for senior executives are elements of systematic management development.

## RISKS OF FUTURE DEVELOPMENTS IN THE ECONOMY

For 2007 we expect continuing growth of the world economy. World GDP is expected to increase by 4.5%, slightly lower than the year before. For 2008, too, we expect the growth to continue, albeit at a slightly slower rate. This forecast is based on a number of assumptions. It is assumed that the geopolitical and economic situation will remain largely stable, in particular in respect of developments on the capital, foreign currency and raw materials markets and in international trade.

Prices of crude oil and other energy raw materials are not expected to increase significantly in 2007. A marked rise in the price of oil would slow down global economic growth, increase our procurement costs and negatively impact sales prospects on the international markets. We expect supplies of energy and other raw materials to remain secure.

Against the background of the slight slowdown in world economic growth and the limited inflation risks, we expect at most only isolated interest rate increases by the central banks. In particular in the USA the central bank is unlikely to introduce further interest rate rises. As a result we do not expect any major changes in the us dollar/euro exchange rate. An interest and exchange rate risk would occur if the capital markets were to significantly change their positive stance toward the financial feasibility of the us trade deficit. This would lead to an increase in the value of the euro with negative effects on the competitiveness of European businesses.

## MARKET RISKS IN THE SEGMENTS

THE AREAS OF ACTIVITY OF THE  
SEGMENTS GIVE RISE TO DIFFERENT  
MARKET RISKS.

In the steel business we counter the risks arising from cyclical trends by optimizing costs, adjusting production in a timely manner and concentrating on exacting market segments. Quality and delivery deadline risks are minimized through continuing optimization of the value chains.

In the Steel segment there are major opportunities as well as risks on the market side regarding the implementation and development of sales prices and volumes. Disproportionate increases in raw materials prices pose risks on the cost side. We therefore keep a constant eye on developments and influential factors. In addition, potential damage events could negatively impact earnings even though organizational and technical measures are implemented on an ongoing basis to prevent such events.

Despite our special market position, there remains a risk of surplus capacities arising particularly in China in the coming years which would disturb the balance on the world markets and could lead to inadequate price structures. This poses significant risks for ThyssenKrupp Steel and its competitors. Developments in Asia are therefore being closely monitored.

In addition to the general risks affecting the steel business, the Stainless segment also faces risks mainly from existing or anticipated overcapacities at the stainless producers in Asia, in particular China. Stainless counters these market risks by expanding its business with end customers, providing local customer services, enhancing quality and strengthening its delivery performance. In addition, the segment develops new applications for stainless steels and nickel alloys, innovative products from these materials as well as modern and cost-saving process technologies.

We minimize the risks arising from the availability and prices of raw materials, especially for nickel, chromium and alloyed scrap, by means of adequate contracts and hedging mechanisms. In addition, the Stainless segment prepares for possible substitution risks for stainless flat products due to consistently high alloying element prices by developing alternative material concepts.

Declining demand from the auto industry has led to a sharp reduction in earnings in the Automotive segment. In the future we will therefore focus the automotive activities on the components business and tailored product innovations. These measures could lead to further financial burdens. Increasing steel prices, which experience shows can only be partly passed on to customers on account of the market situation, place a sustained burden on earnings for the automotive activities concerned. To compensate for the increasing cost pressure on the procurement side and the increasing price pressure from automotive manufacturers on the sales side, ambitious segment-wide cost-reduction programs have been implemented and are being further accelerated.

The market for production facilities for the auto industry is currently characterized by a sharp fall in prices, making extensive restructuring measures and capacity cutbacks necessary. In the past fiscal year sales and earnings were also negatively impacted by exchange rate developments in foreign currency transactions, e.g. the US dollar-based supplies from Brazil to the USA.

Possible risks arising from the discontinuation of currently manufactured automotive products are offset through research and development and by cooperation with partners or acquisition of investments. The increasing complexity of products and underlying production processes in some cases carry the risks of higher start-up costs and earnings charges.

In the Technologies segment, the Plant Technology and Marine Systems business units both continue to curb risks arising from the processing of long-term contracts and technological innovations, e.g. by intensified project controls, increased use of project management measures and the speedy implementation of efficiency enhancement and organization optimization measures. Marine Systems offsets competitive disadvantages vis-à-vis Asian competitors in merchant shipbuilding by concentrating on market niches and increasingly initiating performance-enhancing and cost-reducing measures. The Mechanical Engineering business unit aims to swiftly continue the development of new sales markets by establishing/expanding production capacities in growth regions such as India and China to counter risks resulting from declining demand in core markets.

In the Transrapid business unit, a concrete follow-up project for the Shanghai line and the government contract for the manufacture and testing of a prototype vehicle under the further development program will further reduce the market risk. The extent to which delays will be caused as a result of the tragic accident on the test track in Lathen operated by third parties cannot yet be assessed with any certainty.

The risk structure within the Elevator segment reflects not only the different business activities but also the wide regional presence. While the service and modernization activities are relatively unaffected by cyclical fluctuations and thus have a stabilizing effect on earnings, the new installation business is dependent upon the cyclical situation in the construction sectors of the various countries. Activity on

TECHNOLOGIES RELIES  
ON PROJECT CONTROLS  
TO CONTAIN RISKS.

the American construction market is expected to slow. However, stable growth will continue in Asia and the Eastern European region. Risks also arise from the processing of major projects, and risk management methods are already in operation here. The service activities counter risks relating to the loss of maintenance units by developing and implementing customer retention strategies.

Financial hedges are used to limit dependency on exchange-rate effects. In addition, the billing of sales and costs is largely congruent.

The Services segment focuses on materials trading and services. Services counters the price risks in procurement and sales through the systematic further development of logistics and logistics control systems, in particular the expansion of the centralized warehousing concept to optimize inventories and expand the service business, which does not depend on the price of materials. Risks from the cyclical development on the markets as a whole and in specific sectors are reduced by a worldwide presence, a broad customer base and a high degree of diversification. The resultant wide spread of risks also applies to the risks from potentially uncollectible receivables, which are additionally limited by the use of hedging instruments.

Risks for the Industrial Services unit result from the considerable competition and price pressure. We counter this pressure by continuous capacity adjustments on the one hand and new service offerings and sales initiatives directed at specific sectors and customers on the other. An ongoing project controlling system is in place to manage risks from the final completion of projects.

### **SUMMARY: NO THREAT TO EXISTENCE OF COMPANY**

THE RISKS TO THE THYSSENKRUPP  
GROUP ARE CONTAINED AND  
MANAGEABLE.

The overall evaluation of the risks shows that the Group is affected principally by market risks; these include economic price and volume developments in particular, as well as the dependency on the performance of major customers and industries. Business processes are well controlled in general and, therefore, less subject to risks. Overall, the risks at ThyssenKrupp are contained and manageable and do not pose a threat to the existence of the Company. Nor are any risks discernible that may jeopardize the existence of the Company in the future.

## SUBSEQUENT EVENTS, OPPORTUNITIES AND OUTLOOK

Despite the slight weakening of the global economy, the market environment will remain generally favorable. Against this general background, ThyssenKrupp will maintain its positive performance. For 2006/2007 we expect sales in the region of €47 billion and earnings before taxes in the region of €2.5 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

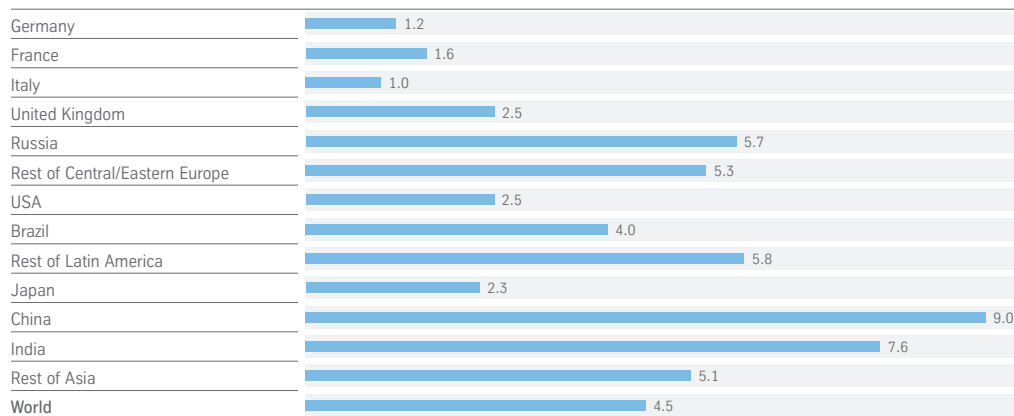
ThyssenKrupp will maintain its general focus as a worldwide supplier of steel, capital goods and services. We have outstanding expertise and profound market knowledge in these areas. Our highly qualified employees and international network of production operations and sales establishments justify our focus on these established business activities. The upward trend of the world economy is expected to promote further growth in our business.

#### Global growth slightly weaker

The global economic upswing will continue in 2007, albeit at a slightly slower rate. With a 4.5% increase in world GDP, growth will be only slightly lower than in 2006 at 5.2%. Beyond this forecast horizon we expect slightly slower growth of the world economy. In view of the high raw material and oil prices worldwide, the risks to economic growth remain undiminished.

GLOBAL GROWTH  
WILL SLOW SLIGHTLY  
TO 4.5% IN 2007.

#### Gross domestic product\* change compared to previous year in %



\* Forecast

Continuing high growth momentum is expected in the countries of Asia. In China in particular, the economic upswing will continue thanks to strong investment. In India, too, the pace of growth is not expected to slacken in 2007. Above-average growth rates are also forecast for most countries of Latin America and Central and Eastern Europe.

In the industrialized countries, economic growth is expected to cool. Higher interest rates and the weakness of the property market are dampening growth prospects in the USA. Weaker growth is forecast for Japan, too, due to slowing investment and exports. A similar pattern is expected in the euro zone. In Germany in particular, economic growth is likely to weaken at least temporarily, slowed above all by a tight fiscal policy and stagnating private consumption.

### **Predominantly positive trend on key customer markets**

We expect a predominantly favorable trend on the customer markets of importance to ThyssenKrupp. The prospects for the world steel market in particular remain generally positive. World demand for rolled steel will grow by around 5% in 2007, driven mainly by the emerging countries of Asia and Latin America and the CIS states. In Europe and the NAFTA region demand is expected to remain steady or fall slightly due to the somewhat subdued economic outlook and the expected reduction of stocks. However, steel consumption is expected to increase further. Output will rise primarily in the emerging countries – especially China, India and Brazil – as major new capacities go into operation. The situation on the raw material and energy markets will remain tight on the whole, keeping steel production costs at a high level or pushing them even higher.

We expect demand for stainless steel and the high-performance materials nickel alloys and titanium to continue to rise in 2007, both in Europe and North America and also in Asia, in particular China. While in China most producers have been operating below capacity due to strong capacity growth in recent years, producers in Europe and the USA are barely able to keep up with demand.

We expect the automotive market to remain a growth market overall. For 2007 we expect worldwide production to grow by 2% to 70.5 million vehicles. However, the new production capacities are increasingly being installed in the emerging Asian countries and in Central and Eastern Europe. These countries could once again significantly expand their vehicle production in 2007. In the NAFTA region, Western Europe and Japan, volumes will decrease slightly. As a result of weaker domestic demand, German auto production is expected to fall to 5.7 million cars and trucks.

Due to the slightly reduced pace of global expansion, growth in the mechanical engineering sector in 2007 is not expected to be as strong as the year before. There are signs of cooling in the USA and Western Europe in particular. In China, continuing high investment will continue to ensure strong growth.

The international construction market will remain characterized by large regional differences in 2007. In the euro zone growth will be weaker, and in Germany a slight rise in construction output is expected. However, a significant downturn in construction activity is likely in the USA. Growth will remain focused on the countries of Eastern Europe as well as India and China.

### **OPPORTUNITIES THROUGH INNOVATION AND INTERNATIONALIZATION**

Under a systematic forward strategy, ThyssenKrupp sees significant growth opportunities for the coming years. We aim to further increase the innovativeness and competitiveness of our products and services. Innovative processes and products open up opportunities to secure and build on our top positions on numerous markets. This applies not only to our range of materials but also to our complete system solutions, for example in plant technology and marine systems. We also see good prospects in the industrial services business. Its unique profile with innovative service offerings can make an even greater contribution to the Company's success in the future.

VEHICLE PRODUCTION REMAINS  
A GLOBAL GROWTH SECTOR WITH  
NEW CAPACITIES BEING INSTALLED.

In the area of opportunity management, further internationalizing the activities of all segments is a key priority. Above all, we intend to step up our involvement in the up-and-coming countries of Asia, Latin America and Eastern Europe and participate in their growth. To this end we are building our own local production plants. However, we also see diverse opportunities for strategic acquisitions.

In the Steel segment, the new steel mill in the Brazilian state of Rio de Janeiro will open up new opportunities. The low-cost, high-quality slabs supplied from Brazil will allow us to exploit growth opportunities in our core market of Europe and in the NAFTA region. The planned strengthening of our presence in North America with the establishment of our own rolling capacities for both carbon and stainless steel flat products will enhance our credentials on this key market as a flexible materials manufacturer with a local presence capable of responding quickly to the requirements of customers.

Details of our corporate strategy aimed at exploiting our future opportunities are provided on pages 87-90.

THE NEW STEEL MILL IN BRAZIL  
WILL OPEN UP NEW GROWTH  
OPPORTUNITIES.

## EARNINGS SITUATION EXPECTED TO REMAIN POSITIVE

If the economic forecasts prove accurate, we anticipate a continued positive performance in 2006/2007 and 2007/2008.

**Sales:** We currently expect sales in 2006/2007 to be in the region of €47 billion.

- **Steel** is aiming for an increase in sales of flat-rolled carbon steel, with prices rising slightly for structural reasons.
- **Stainless** forecasts moderate sales growth mainly as a result of volume and structural improvements in stainless steel flat products and higher base prices.
- **Technologies** anticipates an increase in sales for the segment's previous activities, with a strong order backlog in the project business and order intake expected to be high. Excluding the disposals (mainly the North American body and chassis business, ThyssenKrupp Plastics, ThyssenKrupp Stahl Company), sales at the Automotive activities are expected to be unchanged from the prior year.
- **Elevator** once again expects a significant increase in sales in the coming fiscal year, secured by a high level of orders in hand. All regions are expected to contribute to this improvement.
- **Services** anticipates slightly lower sales due to the expected decline in prices. Improvements are forecast in the service activities and in the Eastern European market.

Based on a continued positive performance, we expect the Group's sales to remain strong in 2007/2008. We continue to intensively pursue our sales target of €50 billion.

**Earnings and dividend:** Our sustainable target for pre-tax earnings over the economic cycles is €2.5 billion. Having achieved this target in 2005/2006, we are confident we can repeat our performance in 2006/2007. We aim to achieve earnings of a similar magnitude in 2007/2008.

We will continue to pay a dividend based on our earnings performance.

**Employees:** We plan to have around 191,000 employees at September 30, 2007, an increase of 2%. In 2007/2008 the headcount is expected to increase by a further 2%. Despite the anticipated increases, the workforce in Germany is likely to decrease because for market- and cost-related reasons the growth in employment will take place almost exclusively outside Germany. Training young people will remain a high priority in the future and for this reason we will continue to provide apprentice training beyond our own requirements. In view of the shortage of apprenticeship places on the market, we aim to give as many young people as possible a sound start to their working lives. The Group's total personnel expense in 2006/2007 is expected to be around €9.5 billion; in the subsequent year it could increase further.

THE NUMBER OF EMPLOYEES  
WILL RISE IN 2006/2007 – MAINLY  
OUTSIDE GERMANY.

**Procurement:** In the next two fiscal years, materials expense is again expected to amount to significantly more than 50% of sales due to persistently high raw material prices and the increasing proportion of purchased products and services. In view of our long-term, international supplier relationships, we do not anticipate any bottlenecks in the procurement of raw materials, components, operating materials or services in 2006/2007 or 2007/2008.

In fiscal year 2006/2007 we will continue our successful purchasing initiative, which will not only further reduce overall costs but in the medium term also strengthen the quality of purchasing. One aspect of this will be the expansion of our strategic supplier management system, under which we identify the best suppliers worldwide so that we can focus on them more strongly and build long-term partnerships with them. In this way we can limit or in some cases even reduce purchasing prices.

**Research and development:** In the current fiscal year we plan to spend over €800 million on the development of new products and processes including quality assurance. This represents an increase of over €50 million. A further increase is planned in the following fiscal year. One key area is the development of new carbon and stainless steel materials which can be easily processed by our customers, e.g. in the auto industry, while at the same time displaying high strength. In the marine systems business we aim to optimize the building of naval ships and the integration of the various electronic control systems. Our plant technology business will further develop several of its production processes with the aim of reducing energy consumption. For the planned increase in development activities, our research centers will recruit more employees; in addition, cooperation with external universities will be intensified. Individual projects may be carried out under international research contracts to shorten development times. The Group's development centers will work on a cross-segment basis as far as possible in order to pool resources and enhance efficiency.

OUR SPENDING ON RESEARCH  
AND DEVELOPMENT WILL RISE  
TO OVER €800 MILLION.

**Environmental protection:** Spending on ongoing environmental protection programs is expected to total over €400 million in both fiscal 2006/2007 and fiscal 2007/2008. Most of this will go towards reducing air and water pollution. In the Steel and Stainless segments, significant investments in pollution control equipment may be incurred for the construction projects in Brazil and the USA. We will expand our recycling activities in all segments to make better use of materials and conserve natural resources. Efforts aimed at saving energy in our operations will also be continued.

## EXPECTED FINANCIAL SITUATION

At €7 billion, the volume of investment approved by the Supervisory Board is significantly higher than the previous year due to the investments in Brazil. In 2006/2007 – excluding any influences from the Dofasco project – we plan to invest €3.2 billion in tangible, intangible and financial assets, €1.7 billion above depreciation. The Group has adequate funds to finance the planned capital expenditures in 2006/2007, and our ambitious investment program for the following fiscal year is also on a solid financial basis.

**ARE THERE LIMITS THAT CAN'T BE EXCEEDED?**  
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