Speech

by

**Guido Kerkhoff**

CEO of

thyssenkrupp AG

**Press call regarding the  
strategic realignment of thyssenkrupp**

May 10, 2019 in Essen, Germany

Check against delivery.

**[Introduction]**

Good afternoon, ladies and gentlemen,

We have informed you today that we do not expect the European Commission to approve the steel joint venture. At the same time, the Executive Board will propose a fundamental strategic realignment of thyssenkrupp to the Supervisory Board. We are in positive discussions with Supervisory Board committees on this subject. The decision of the Supervisory Board will be taken by May 21.

Now let's move on to the content:

We will not separate the company. The Group as a whole remains intact. At the same time, we are building a fundamentally new thyssenkrupp:

A thyssenkrupp in which the businesses get the entrepreneurial freedom they need to be successful. A thyssenkrupp in which there are clear responsibilities, with a lean organization and businesses that are primarily concerned with developing their performance. And we are building a thyssenkrupp with a much better financial base. This is exactly what we wanted to achieve with the separation of the Group. That path is no longer feasible, therefore this fresh start.

As part of its new strategy, the Executive Board will propose to the Supervisory Board that the elevator business be listed on the stock exchange. This will substantially strengthen thyssenkrupp's capital base. The expected proceeds give us the flexibility to consistently develop and restructure all our businesses, but also to question existing structures.

Tomorrow we will present our plans to the responsible Strategy, Finance and Investment Committee of the Supervisory Board. I assume that the Supervisory Board will support us and I would like to take this opportunity to especially thank our new Chairwoman of the Supervisory Board, Martina Merz. With her, the Executive Board has a reliable contact person and a prudent and courageous advisor who supports us constructively and trustingly in this difficult situation.

Before I explain to you in detail how we arrived at our decisions and what the new thyssenkrupp will look like, allow me to make a personal comment.

**[Our responsibility]**

My colleagues on the Executive Board and I are, of course, perfectly aware what some of you are thinking: they have been working under high pressure on the separation for eight months and have regularly reported on the progress. Only three months after at the Annual General Meeting. And now this U-turn?

But this isn't about us. This is all about the future of our company. If fundamental parameters change, we owe it to our employees, customers and shareholders to reassess the situation. And above all, to do the right thing.

**[Changed parameters lead to strategic reassessment]**

So, what made us decide to fundamentally reassess the strategic options?

In September 2018 we presented our plans for the separation of the company. A lot has changed since then.

Above all, the planned steel joint venture did not go ahead due to resistance from the European Commission. I spoke to Competition Commissioner Margrethe Vestager today. She informed thyssenkrupp and Tata that despite our extensive concessions the European Commission will not approve the joint venture under the current conditions.

We very much regret the Commission's decision. We don't share their assessment. From our point of view, the joint venture would have been the strategically superior solution for steel. It would not have posed a threat to competition, since overcapacities and high import pressure from Asia create difficult market conditions. The European steel industry needs consolidation. We are still convinced of this.

Together with Tata Steel we, therefore, made all the concessions we could economically justify. More and the joint venture would no longer have paid off. Better no joint venture than a false compromise. I've always said we don't do economic nonsense.

The fact that the joint venture will not go ahead is above all a hard blow for our 27,000 steel employees. The merger with Tata Steel would have given them a good perspective for the future. We now have to realign our business on our own and make it fit for the future. This will include sustainable and extensive restructuring, as the steel cycle is giving additional headwind. The earnings situation for steel is currently very poor. In addition, the expected antitrust fine will place an additional considerable burden on us.

The fact that we are now unable to realize the joint venture is also weighing on our strained balance sheet. Originally, we intended to transfer around €4 billion in liabilities and pension obligations to the joint venture. These will now remain with thyssenkrupp.

The fact that the joint venture will not go ahead and the resulting reintegration of our steel business is a reason for us to review the Group's strategic orientation in general. In addition, other parameters have changed significantly:

First, our current performance is worse than expected. This is due to geopolitical uncertainties, but above all, to an economic downturn worldwide. We feel this in all our businesses and especially in the automotive sector. In addition, we expect a significantly higher cartel fine in steel. Therefore, today, we have adjusted our forecast for the current financial year. We now expect an adjusted EBIT including the Steel business of €1.1-1.2 billion and negative effects on net income and free cash flow.

This changed financial framework means that, from today's perspective, a separation with a remaining stake of less than 50% is risky.

Second, thyssenkrupp's share price has fallen by around 40 percent since the end of 2018. Investors state two reasons for this: disappointment with our performance and also doubts about the separation. As positive as the plan was initially received, it was subsequently questioned again.

So we have to be honest: Under these conditions, a separation is no longer the best solution for thyssenkrupp. We can no longer achieve the restart we intended.

**[Weak balance stands in the way of sustainability]**

It was therefore clear to us as the Executive Board that we had to tackle thyssenkrupp's problems differently. Improving our capital base is key to this.

The bottom line today is that we are still suffering from the long-term consequences of our bad investments in Brazil and the USA. The "Steel Americas adventure" cost us a total of €8 billion. We have long since drawn a line through the chapter. Nevertheless, our financial situation has been tense ever since: Our equity ratio is currently below 10 percent. And worst of all, we've been stuck there for years.

Whatever we tackle: Restructuring or changes in the portfolio often initially burden equity and cash flow. We are short on both. Our weak balance sheet is thus currently making everything we need for our future viability more difficult.

We want to change that now: We're building a whole new thyssenkrupp. And as a first step, we are taking our elevator business public.

**[Target picture of a strong industrial group no longer achievable]**

If this is the best solution for thyssenkrupp now, why didn't we choose it much earlier?

Quite simply, because the elevator business has been at the heart of our strategic considerations so far. After the disaster in Brazil, we wanted to evolve thyssenkrupp into a strong industrial group with Elevator as its elemental and indispensable core.

We have made good progress on this path in recent years. We have stabilized the Group, strengthened our ability to innovate, initiated digital transformation and initiated a far-reaching cultural change. These are all good reasons why our team can be proud of what we have achieved! As the Executive Board, we know that we can rely on our team, especially in difficult times. My sincere thanks for that!

But honesty means that despite all our efforts and successes, thyssenkrupp is still not a strong industrial group. And with the cancellation of the joint venture, we must acknowledge that the goal can no longer be achieved in this way.

The performance of our businesses today is still not where we want it to be. This is demonstrated not least by our weak figures in the first half of the year.

It is therefore time for a new, disruptive approach. It's time to press the "Reset" button for the strategy. Without taboos and under recognition of the new realities.

**[Paradigm shift in thyssenkrupp's strategic direction]**

That's why we're building a completely new thyssenkrupp. Three basic principles will characterize this new thyssenkrupp:

First: Performance comes first. Increasing our performance has top priority. That is why our mid-term targets for the new thyssenkrupp remain unchanged. We will generate a cash flow of €1 billion in fiscal year 2020/21. Our aspiration is to manage businesses that are among the best in their respective market segments.

Second: A flexible portfolio. In the future, we will measure our success by the best possible development of our businesses - not necessarily by the fact that we own the majority of them. The management will be given more entrepreneurial freedom than ever before in the history of thyssenkrupp.

And third: An efficient organization. On the way to the new thyssenkrupp, we will develop a fundamentally new organizational and leadership model that focuses on the performance of our employees. This applies to all units and all levels. We will streamline the holding and significantly reduce administrative costs throughout the Group. These measures are unavoidable in order to improve the competitiveness of thyssenkrupp's businesses and give the workforce a future-oriented perspective.

**[Flexible portfolio with clear material core]**

Let me address all three points: Portfolio, organization and performance. Elevator's IPO is proof of how we will manage and further develop thyssenkrupp's portfolio in the future.

Elevator is our most valuable business. And one of the unpleasant truths is that markets even value the elevator business significantly higher than the entire thyssenkrupp company as a whole.

We are therefore planning to list our elevator business on the stock exchange. This is a courageous and important step for Elevator, but also for thyssenkrupp as a whole. The IPO will strengthen our capital base in the long term. We will use this to further advance the necessary reorganization of the Group: This includes investments in growth and active portfolio management but also restructuring.

But the step is also good for Elevator: We assume that the IPO will be a catalyst for the performance improvements already initiated in the elevator business. However, Elevator's positioning as an independent listed company also allows for better growth and development opportunities.

However, a major part of our future portfolio will be the materials businesses. Steel and materials trading have made thyssenkrupp big. These are businesses that we understand well and in which we have leading market positions. Without the joint venture, we will now have to respond to the many challenges in the steel market on our own in order to prepare our business for the future. We will now work out exactly what this will look like together with the Executive Board of Steel Europe and co-determination in the steel business. We will take the necessary time to do this.

However, we will continue to look at consolidation options in the materials business. We assume that Steel Europe and Materials Services will be majority-owned by thyssenkrupp in the long term.

In all other businesses we intend to use the proceeds from the Elevator IPO to further develop them. Components Technology will become a pure automotive business as planned. Industrial Solutions is also undergoing a fundamental transformation. In both businesses, we can also envisage further development with partnerships - also for sub-units. The same applies to our bearings business, our forging activities and marine business.

At this point also a message to our customers: We remain a reliable partner. We want to break new ground in order to develop our business better and more successfully for you, too.

**[New organization with efficient structures]**

In the future, we will decide much more strongly from a business perspective how business will develop. We also want to improve performance by giving the businesses more individual responsibility. Because that is an essential core of the new thyssenkrupp.

Based on this new target picture, we will also adapt the organizational and management structures: We need clear responsibilities and we need to completely redesign the collaboration between all areas of the Group.

Corporate will also take on a new role here. We will have to ask ourselves: What functions are needed at corporate level to best support the businesses in their development? We have clearly defined the scope for this: Over the next two years we will reduce central administrative costs from currently €380 million to below €200 million and thus contribute to thyssenkrupp's earnings improvement.

**[Business Areas to focus on performance]**

However, we see the largest potential for increasing our efficiency in the businesses themselves. For this reason, the new thyssenkrupp will focus primarily on improving the performance of the individual businesses. The flexible portfolio management and the lean organization serve exactly this purpose. From now on we will consistently resolve our construction sites in the businesses. Without distraction. No excuses.

For this reason, our targets for the 2020/21 fiscal year continue to apply. A cash flow of €1 billion remains our minimum aspiration. All our businesses have a clear plan of how to achieve their goals and are working hard to implement them. Increasing performance does not mean that we only save money everywhere, but that we also want to continue to grow, for example in the automotive business and in services. We will continue to pursue all of this consistently. However, we will not achieve these goals with the measures initiated so far solely.

We will therefore launch a new Group-wide performance program. This also includes a reduction of 6,000 jobs. Similar to the separation, we are also striving to reach an agreement with the employee representatives on this strategic realignment. Discussions on this will be initiated immediately. As before, our aim is to shape these changes with our employees and not against them.

Further details on the performance program will be communicated with our nine-month figures in August.

We will work just as consistently to promote a performance culture even more strongly than before in all areas of the company. This will also be part of the new collaboration between corporate and businesses. We will consistently track the performance of our leaders against the achievement of the goals we have set. Because we have learned painfully in the past: sometimes we should have acted earlier and more decisively if goals were missed.

**[Conclusion]**

Ladies and gentlemen,

You see, we are building a whole new thyssenkrupp. A thyssenkrupp in which the idea of performance comes first. We are going to change a lot of things. It won't be an easy road. It is going to take a lot out of all of us. But it will be worth it:

Our portfolio will become much more flexible. Business will be added, partnerships will be established and some businesses will be able to develop better outside of thyssenkrupp. The businesses will pursue very different strategies and implement them with great autonomy.

But what remains is the strong thyssenkrupp brand, which stands for engineering like no other. What remains are our values: honesty, integrity, transparency and respect. The basis for this is our very special thyssenkrupp culture, in which people work day after day for the success of the company and give their best.

With this in mind, we will also implement our new strategy.