

Remarks

by

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Chairman of the Executive Board  
of ThyssenKrupp AG

at the

**5th Annual Stockholders' Meeting**

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Bochum

Check against delivery

Ladies and Gentlemen,

On behalf of my Executive Board colleagues and myself, I would like to welcome you to the fifth Annual Stockholders' Meeting of ThyssenKrupp AG.

Today, I would like to answer four central questions: How did your Company fare in the past fiscal year given the disappointing world economy? What strategic goals is ThyssenKrupp pursuing? Where do we stand today and how do we intend to go on? I would like to begin by giving you some initial information about the good course of business in the first three months of the current fiscal year.

### **Estimates for the first quarter 2003/2004**

The final figures for the first quarter of 2003/2004 are not yet available. But all the indications are that after the subdued summer of 2003 we have made a good start in the new fiscal year 2003/2004. One contributory factor was that the steel price increases were accepted by the market.

- Order intake reached €9.6 billion, compared with €9.0 billion the year before. Sales matched the prior-year quarter at €8.7 billion. Eliminating exchange-rate effects, i.e. if the euro-dollar exchange rate had not changed, order intake increased by 10 percent and sales by 3 percent.
- At over €150 million, income before taxes and minority interest was higher than at the same time last year, when we generated first-quarter income of €141 million.

As the economic recovery sets in, we have been observing a better than expected revival in business for some weeks now, and this continued in the seasonally weak month of December. As the year progresses a further improvement in economic conditions is expected worldwide. We expect the main impetus to come in the second half of the year.

We will be able to present a more detailed report on business in the first quarter of 2003/2004 on February 13, 2004, when the interim report on this period is published.

## **Overview of fiscal year 2002/2003**

### Disappointing world economy

The 2002/2003 fiscal year was impacted by the continued disappointing performance of numerous national economies. The global economy failed to make a sustained recovery. The growth forecasts for key industrialized nations had to be scaled back in some cases by more than half. In Germany, the forecasts had to be reduced from 2.5 percent to virtually zero. In the euro zone the estimates were revised downwards from 1.5 percent to only 0.5 percent in the course of the year.

### ThyssenKrupp in fiscal year 2002/2003

The economic situation also left its mark on ThyssenKrupp. This may sound like a convenient excuse, but the fact is that in our business we rely on investment by our customers around the world to create demand for our products and services.

- Order intake was down 1 percent at €36 billion.
- Sales fell 2 percent to €36.1 billion.
- EBITDA amounted to €2.45 billion, compared with €2.64 billion the year before.
- Net cash provided by operating activities decreased by €427 million to €2 billion.

Nevertheless, your Company performed well:

- Normalized earnings improved from €419 million to €734 million.
- Consolidated net income increased from €216 million to €512 million.
- Earnings per share amounted to €1.01, compared with €0.42 the year before, while normalized earnings per share increased from €0.48 to €0.89.
- For the past fiscal year we propose to distribute a dividend of €0.50 per share, based on normalized earnings per share of €0.89. In fiscal year 2001/2002 the dividend was €0.40.
- Net financial payables at September 30, 2003 were well below €5 billion at €4.2 billion. This means that we have reduced net debt by over €4

billion since the peak in summer 2001 and by €500 million since the previous year.

- The Group's gearing – the ratio of net debt to equity – improved from 57.2 percent at September 30, 2002 to 55.5 percent at September 30, 2003. This means that we have again reached our medium-term target of 60 percent.

Behind these figures lies a significant improvement in the quality of our earnings, driven not least by the many successfully implemented measures to enhance the Group's efficiency. The basis for this is the know-how and creative potential of our employees. They drive the Group forward by developing innovative new products and accessing new markets and customers worldwide.

#### Overview of the segments

This brings me to the business performance in the three areas of activity Steel, Capital Goods and Services.

#### **Steel:**

The Steel segment held up well in a continuing difficult economic environment in the past fiscal year. At €11.9 billion, order intake was slightly higher than the €11.7 billion the year before. Sales climbed from €11.7 billion to €12 billion. Steel generated earnings of €384 million, compared with €167 million in the previous year. At September 30, 2003 the Steel segment employed 49,286 people, compared with 50,184 a year earlier.

At this point I would also like to make a few comments about the lifting of the tariffs for US steel imports by the American administration in December 2003. We welcome this decision, which averted further turbulence for world trade. At ThyssenKrupp Steel these safeguard tariffs affected a sales volume of around €200 million, or less than 2 percent of Steel's total sales of €12 billion in 2002/2003. We now hope that the talks at the OECD on an international agreement to further reduce subsidies and surplus capacities on the global steel market will be continued. At the same time we call on the American steel industry to systematically continue the restructuring measures it has introduced and to face the international competition.

**Capital Goods** comprises the three segments Automotive, Elevator and Technologies.

The performance of our Automotive segment was characterized by the continued weakness on key automobile markets such as North America and Western Europe and by the weakness of the dollar. Positive effects came from the significant growth in system business and increased demand for components for engines and steering systems. Order intake amounted to around €6.3 billion, compared with €6.4 billion in fiscal year 2001/2002. At €6.3 billion, sales almost matched the prior-year level. Earnings rose to €188 million from €64 million the year before. The number of employees increased from 38,425 to 41,414.

Our Elevator segment performed successfully in adverse economic conditions. While the general economic weakness, especially in the construction sector, negatively impacted the new installation business, service and modernization business remained encouraging. At €3.4 billion each, order intake and sales were lower than the year-earlier figures of €3.6 billion and €3.5 billion, respectively. These reductions were due solely to exchange rate factors. Elevator generated income of €355 million, compared with €317 million the year before. On September 30, 2003, the segment employed 29,689 people, 921 more than a year earlier.

Technologies had to contend with difficult market conditions in the past fiscal year. Demand for machine tools decreased sharply, especially in the USA. Sales of construction equipment suffered from the unsatisfactory situation in the building sector. By contrast, plant technology delivered an encouraging performance. Under mostly unfavorable economic conditions, the segment's order intake decreased from €5.3 billion to €5 billion, sales from €5.8 billion to €5.4 billion and income from €112 million to €42 million. 29,871 people were employed in this segment, 2,910 fewer than the year before.

**Services:**

At the start of the new fiscal year we combined the two segments Materials and Serv to form Services, thereby reducing the number of segments to five. Services was launched on October 1, 2003 with around 38,000 employees at some 600 locations worldwide. Services' order intake reached €11.5 billion, compared with €11.4 billion in the previous year. Sales amounted to €11.3 billion after €11.4

billion in fiscal 2001/2002. Income was down to €32 million from €124 million the year before. At September 30, 2003, the segment had 38,487 employees, 1,188 fewer than a year earlier.

The Group's **Real Estate** business increased its order intake and sales from €320 million to €345 million and generated income of €60 million, compared with €80 million the year before. At September 30, 2003 Real Estate employed 638 people; a year earlier the headcount was 745.

### **ThyssenKrupp stock performance**

In fiscal year 2002/2003 ThyssenKrupp's stock performed well in a brightening stock market climate. In the first quarter the performance of the stock markets was influenced by political uncertainties and risks. Subsequently, the military conflict in Iraq had a particularly strong impact. In the second quarter ThyssenKrupp stock lost considerable ground following the rating downgrade, and lost around a third of its value. From the third quarter onward, the stock price staged a gradual recovery. This trend was supported by the announcement in May of the Group's strategic focus and restructuring. In the fourth quarter ThyssenKrupp stock reached a fiscal-year high of €13.62 before subsiding again.

In the first months of the new fiscal year 2003/2004 ThyssenKrupp's stock participated to a disproportionate extent in the positive performance of the general market. On January 20, 2004 the stock price closed at €17.41, 51 percent higher than on September 30, 2003 and around 80 percent higher than at the last Annual Stockholders' Meeting on February 21, 2003. In the same periods the DAX recorded growth of just under 26 percent and 56 percent, respectively, while the DJ STOXX was up by around 15 and 31 percent.

## **Share repurchase**

In May 2003, the Group purchased 16.9 million of its own shares from IFIC Holding AG, thereby reducing Iran's indirect shareholding in ThyssenKrupp AG from 7.79 percent to less than 5 percent. As a result of this share repurchase we were able to avert the threat of serious, imminent harm to the Company; our activities in the USA would otherwise have faced major business losses under relevant US legislation. In concrete terms, sales of up to US\$8 billion were at risk – with corresponding effects on earnings and jobs. Against this background, we regard the purchase price for the stock of around €406 million as justified. The share purchase costs have no impact on earnings before taxes, they only reduce the Group's equity capital.

Detailed information on the reasons for and purpose of the share repurchase are contained in the Notes to the consolidated financial statements and the parent-company financial statements. To make optimum use of the shares repurchased subject to market conditions and to keep all options open, under agenda items 8 and 9 we are asking you to authorize a number of alternative uses. These include using the shares for our employee share program or as acquisition currency. Another possibility is the medium-term sale of the shares on the stock market. In deciding on the most suitable use of the shares or on a combination of different uses, we will take into account the market situation.

## **Ratings**

On the morning of our Annual Stockholders' Meeting in February last year, the rating agency Standard and Poor's informed us that ThyssenKrupp was losing its investment grade status. The only reason for this downgrade was a change in the way the agency treats pension liabilities. For us, this action was and is impossible to comprehend, for the financial situation of the Group had improved significantly since the initial rating in summer 2001. Since then, net financial payables had been reduced by over €4 billion.

We wanted clarity regarding Standard and Poor's actions. For this reason, ThyssenKrupp, Deutsche Post and Linde commissioned a research report on the question of the valuation of pension liabilities internationally. The report was published at the end of November 2003. It shows that the differences in the way

pension obligations are funded are not always taken into account appropriately by the major rating agencies. In the opinion of the report's authors, this leads to distortions when comparing companies with external pension funds and those with internal pension provisions. For companies like ThyssenKrupp with internally funded pension liabilities, the new method of Standard and Poor's results in disadvantages in the rating process. One further remark on this: The pension liabilities are the result of our successful restructuring efforts within the German steel industry. They are therefore clearly calculable and can be paid at all times, i.e. from cash flow. They are certainly easier to calculate than pension funds, which are dependent on volatile developments on the capital markets.

In July 2003, Moody's lowered its rating for ThyssenKrupp, citing a generally poorer market environment. However: at both Moody's and at Fitch, ThyssenKrupp remains clearly investment grade. Overall, the downgrades had only a temporary impact on the capital markets. In the meantime, ThyssenKrupp bonds are valued higher than before the downgrades.

Ladies and Gentlemen, the rating agencies publish opinions about their clients. These are important to us. More important, however, is that we pursue a clear strategy. Our strategy is in line with the wishes of the agencies, and so by consistently pursuing it, over time we will regain satisfactory ratings.

### **Measures to enhance the value of the Group**

ThyssenKrupp is pursuing a long-term strategy. Part of it are measures to enhance the value of the Group:

- the further focusing of the Group in its three areas of business Steel, Capital Goods and Services through active portfolio management
- and the Groupwide efficiency enhancement program ThyssenKrupp best.

We have made good progress in both areas.



### Active portfolio management

The Group already holds top positions in the international marketplace. We are world market leader in stainless steel and nickel-base alloys, and European number two in carbon steel. We are also one of the largest automotive suppliers worldwide. In the elevator business we rank among the world's top three. We are continuing to focus our activities within Steel, Capital Goods and Services through active portfolio management designed to enhance the earning power and the value of your company on a long-term basis. We have already achieved a great deal.

After the merger, ThyssenKrupp defined core activities with sales of €21.4 billion. Non-core activities amounted to €8.4 billion. Up to the end of the past fiscal year, the activities to be disposed of decreased to €4.8 billion. The core business reached a volume of €31.3 billion. The quality of our sales has improved significantly as a result of this structural change: In our core business, sales growth since 1998/99 has averaged 10 percent per year. In the Group as a whole, we achieved 4.9 percent a year.

As a result of this focusing of the portfolio, since the merger of Thyssen and Krupp in 1999, companies with sales of €3.6 billion have been sold and companies with sales of €5.5 billion have been acquired. In the past fiscal year alone, ThyssenKrupp carried out 39 portfolio changes. Overall since the beginning of 2002/2003, companies with sales of €1.5 billion have been acquired while divestitures reached a volume of €1 billion.

Some examples:

An important element of the strategy of ThyssenKrupp Steel is to expand its global activities and concentrate on higher-value products. Currently these products already account for 80 percent of sales of carbon steel and 90 percent in the case of stainless steel.

Acquisitions served in particular to strengthen our downstream activities. In the Carbon Steel business unit, the full acquisition of the Spanish hot dip galvanizing plant Galmed contributed to the internationalization of our downstream business

and at the same time gave us direct access to the growing Spanish automobile market. Stainless Steel strengthened its position in Italy, the second-largest stainless steel market in Europe, by acquiring further service centers. Carbon Steel and Stainless Steel will continue to expand their downstream activities significantly in the years ahead.

The strategic goals of ThyssenKrupp Automotive are to grow both its system and component business, with investment concentrated on products offering high earnings contributions and on expanding its presence in Asia.

The acquisition of Sofédit S.A., a major French supplier of automotive stampings and assemblies, strengthened Automotive's leading position in the body and chassis business units. In addition, 60 percent of Mercedes-Benz Lenkungen GmbH (MB Lenk) was acquired at the beginning of the current fiscal year. Combining the activities of MB Lenk and ThyssenKrupp Presta, a subsidiary of ThyssenKrupp Automotive, will create a powerful global supplier of complete steering systems. Through these two acquisitions, Automotive has increased its sales by around €900 million per year and its workforce by around 5,000 employees.

As you know, in October 2001 ThyssenKrupp purchased 10 percent of Valmet Automotive in Finland. Up to the end of 2003 we had an option to acquire the remaining shares of this Finnish manufacturer of niche vehicles. We did not exercise this option because Valmet failed to secure sufficient follow-up orders to fill the capacity of its plant. The cooperation with Valmet is, however, being continued.

ThyssenKrupp Elevator is currently the third largest elevator manufacturer in the world. The segment plans to continuously improve its market position with the aim of becoming the world number two manufacturer. The basis for growth at ThyssenKrupp Elevator are innovative and high-quality products as well as strong customer loyalty.

ThyssenKrupp Elevator's strong expansion is reflected in numerous smaller acquisitions in Europe. The segment's market position in Asia was also strengthened significantly. In Korea, ThyssenKrupp Elevator acquired 75 percent

of the Dongyang group at the beginning of the current fiscal year. This company is the second largest supplier in Korea, the third largest market for elevators and escalators in Asia.

Active portfolio management was also continued at ThyssenKrupp Technologies. Successful divestitures included the sale of Thyssen Polymer, Henschel Industrietechnik and Henschel Recycling Technik, and in the current fiscal year 2003/2004 the sale of Novoferm.

With regard to the shipyards, the situation has changed in recent months. In spring 2003, ThyssenKrupp submitted an offer to One Equity Partner (OEP) for a shareholding in HDW. OEP has so far not accepted this offer. In the meantime, it has been announced that OEP intends to remain a majority shareholder of HDW for the time being. ThyssenKrupp is now concentrating on the operating business of its two shipyards Blohm + Voss in Hamburg and Nordseewerke in Emden. Both shipyards have concluded cooperation agreements with HDW, which require the approval of the German Economics Minister to become effective. In the interests of consolidating the European shipbuilding industry, we regard a two-step approach as appropriate. The first step would be to contribute our two shipyards to a German group, which we would want to control in order to enhance the value of our shipyards. The second step would be to incorporate this group in a European solution.

ThyssenKrupp Services sold Hünnebeck GmbH, one of the world's leading suppliers of formwork and scaffold systems, to the American investment firm Sun Capital Partners. With the sale of these construction-related activities, the segment is continuing to strengthen its focus on industrial services.

Talks regarding our IT subsidiary Triaton are currently continuing with several interested buyers. We are confident that we will be able to successfully conclude the sale of this company, with sales of €350 million and 2,200 employees, this spring.

As a result of these portfolio changes, the workforce of the Group increased by a total of 5,613 employees in the past fiscal year. Divestitures resulted in the loss of subsidiaries with 3,392 employees. At operating level we increased our productivity and reduced the workforce by a total of 8,573 employees. At the

same time, we created 5,200 new jobs through organic growth in our core businesses. The employee growth was greater outside Germany and the reduction greater inside Germany. These significant movements in the workforce figures through portfolio changes have led to the addition of almost 25,000 employees and the departure of around 15,000 employees in the past four years. In the same period, operating changes led to growth of 24,000 employees and a reduction of almost 29,000 employees.

We will continue to optimize our business portfolio and raise the tempo even further. In May 2003, the Supervisory Board approved the plans of the Executive Board for the further development of the Group. We will be disposing of further non-strategic holdings with total sales of €5 billion. This will reduce our net debt and give us new latitude for strategic acquisitions in our core businesses. Through organic growth and selective strategic acquisitions, the aim is for the Group to reach total sales of €40 to 46 billion by fiscal year 2006/2007. This corresponds to an annual growth rate of around 9 percent. We intend to finance this growth from our own cash flow and will continue to be guided by our gearing target of less than 60 percent.

### **ThyssenKrupp best**

ThyssenKrupp best, the Groupwide efficiency enhancement program launched in fiscal 2001/2002, continued to develop dynamically both in Germany and abroad. Activities are aimed mainly at implementing defined projects, identifying additional improvement potential and intensifying the transfer of knowledge throughout the Group. In the past fiscal year around 1,300 new projects were launched. The program now includes almost 2,500 projects at Group subsidiaries in Europe, North, Central and South America, and Asia. Over 800 projects have been completed. The areas of operating efficiency, sales leadership, performance quality and capital productivity account for some 80 percent of these projects. Other initiatives relate to stronger staff and management involvement, expanding service business, knowledge and innovation management, and the increased use of e-technologies. This broad spectrum of activities allows ThyssenKrupp best to unlock more value-adding potential than simple cost-reduction or quality-enhancement programs.

The new ThyssenKrupp best sales initiative will give the program an additional boost. As competition becomes tougher, systematic sales management takes on greater importance for company success. This is where the sales initiative comes in. The objective is to increase sales at the subsidiaries and develop new profitable growth markets in our core businesses. The sales initiative will be rolled out Groupwide in the coming month.

### **Innovations for lasting market success**

Innovations – the engine of growth and competitiveness – are key to our success on tomorrow's markets. We are well equipped to meet this challenge. Our research centers and development departments have more than 3,000 scientists and engineers working on new, innovative and environment-friendly products and processes. Their cross-segment, customer-focused efforts are indicative of the way ThyssenKrupp systematically harnesses and consolidates the expertise of its individual segments. Allow me to give you a few examples:

#### Steel – a material with a future

With more than 2,000 grades of steel at our disposal, ThyssenKrupp can offer the right solution to all our customers' requirements. In the competition among materials, the Steel segment concentrates on concepts which exploit the weight saving properties of steel. One example of this is the NSB NewSteelBody concept unveiled at the 2003 Frankfurt Motor Show. The name stands for a steel body-in-white designed specifically for weight optimization. The benchmark vehicle was a production minivan with top crash-performance ratings. Although the new body-in-white is 24 percent lighter, it matches or outperforms the crash values of the benchmark. On developments such as this, our specialists generally cooperate with the development departments of the auto manufacturers from a very early stage. Their work helps position steel strongly in the global competition among materials.

#### Automotive – safety, comfort and reduced fuel consumption on tomorrow's roads

Taking on development tasks for auto manufacturers is a challenge which the Automotive segment is meeting with great success. One such new development – being introduced in the Porsche Cayenne and the VW Touareg – is the Off-Road

Stabilizer system, which guarantees optimum ride characteristics both on and off the road. This development won 2nd prize in the 2003 ThyssenKrupp innovation contest.

With their “Capot actif” technology – an active engine hood which automatically cushions the impact of a pedestrian in the event of an accident – our engineers have significantly reduced the risk of pedestrian head injuries. This intelligent system is only triggered in the event of a collision with pedestrians; in crashes with other vehicles, it remains switched off.

The Automotive segment is developing a number of products which contribute to reducing vehicle fuel consumption. They include a new valve control system for engines. Through variable control of the engine charge cycle, this system reduces fuel consumption and improves exhaust quality. It is a modular system offering significant advantages over other systems on the market.

#### Elevator – taking innovative technologies to the top

With groundbreaking innovations like its TWIN elevator, ThyssenKrupp Elevator is again setting new standards on the market and underlining its claim to technology leadership. The TWIN system features two cabs arranged one above the other in the same shaft and using the same guideway. The two cabs are not connected and can move independently to different floors. ThyssenKrupp is the first company to implement this concept, which allows up to 40 percent more passengers to be transported or requires 25 percent less building space. A multi-stage safety concept prevents the two cabs from colliding. For this path-breaking innovation, we awarded the successful TWIN development team 1st prize in the 2003 ThyssenKrupp innovation contest.

Ladies and Gentlemen, these examples provide further impressive evidence of our segments’ research and development capabilities. They also reflect the targeted encouragement given to innovation in our Group, for example through the ThyssenKrupp innovation contest, an annual event since its inception in summer 2000. Since then, the segments have submitted more than 200 projects for new or improved products, services and manufacturing technologies. A third of these proposals have been from Group companies outside Germany. Almost all the

prize-winning projects, such as the aforementioned off-road stabilizer from the Automotive segment, have gone on to enjoy market success or to optimize in-house manufacturing costs.

## **Outlook**

### Global economic recovery possible

Ladies and Gentlemen, that brings me to the outlook. The economic situation is starting to improve. The USA in particular is expected to enjoy a strong upswing. Most economic forecasts for Europe – and particularly Germany – predict only a moderate economic recovery overall in 2004.

A brightening of the overall economic picture should also result in a slight upturn in demand on the markets important to ThyssenKrupp:

- If the economy picks up, steel consumption in our core market of Western Europe should also increase. We are therefore confident of being able to raise carbon steel prices further. However, this depends on the further trend in the euro exchange rate.
- Global automobile production should rise from around 60 to around 62 million vehicles. The main growth will be in the Asian countries excluding Japan.
- A moderate recovery of the world economy will initially only have limited impact on the capital goods sector. German and European machinery manufacturers forecast only a slight rise in production in 2004. A similar picture is expected in the machine tool sector.
- The situation in the German construction industry is not expected to improve significantly. There is no recovery in sight for residential and commercial construction. In the rest of Western Europe, only a slight recovery in building activity is expected. The prospects for the CIS states and the countries of Central and Eastern Europe and Asia are more favorable.

ThyssenKrupp in fiscal 2003/2004: Improved business performance expected

If the widely forecast weak economic recovery materializes, this would naturally also benefit our business performance. In detail, we expect the following developments in fiscal 2003/2004:

- We are planning sales in the region of €38 billion.
- We aim to significantly improve normalized income before taxes against the year before.
- The dividend will again be based on normalized earnings per share.
- As regards movements in the workforce, productivity increases, organic growth and portfolio changes, the developments of recent years will continue.

The success of our corporate strategy so far, the progress and the strong international positions of our segments, and the creative potential of our employees give us confidence for the future. Having improved our normalized earnings before taxes by €315 million in fiscal 2002/2003 – from €419 million a year earlier to €734 million – we now want to get as close as possible to the €1 billion mark in the current fiscal year. With support from the economy, without major distortions on the currency and raw materials markets, and with the efforts of our highly motivated employees, we could even break through the €1 billion barrier. Our target remains to achieve normalized earnings before taxes of €1.5 billion as quickly as possible. We will not be able to meet this target in the current fiscal year, as the forecast growth rates are too low and subject to too many uncertainties. But we are confident that it realistically reflects ThyssenKrupp's potential. In sporting terms, we are going for a triple jump: from €419 million to €734 million in 2002/2003, from €734 million to round about €1 billion in the current year and from €1 billion toward our target of €1.5 billion.

To close, I should like to thank our employees around the world for their dedication and commitment. They are our greatest potential. Their knowledge and their ideas form the basis for the Group's success. They have once again succeeded in meeting and mastering the challenges of the markets with great enthusiasm.



We also extend our thanks to the employee representatives for their trusting collaboration in the interests of the Company and its employees. But my particular thanks go to you, our stockholders, for your faith in ThyssenKrupp and your continued constructive support of your Company.