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Remarks

by

Dr. Heinrich Hiesinger

Chief Executive Officer of thyssenkrupp AG

at the

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at the RuhrCongress Bochum

Check against delivery

## I. Introduction

Good morning, Ladies and Gentlemen,

On behalf of my Executive Board colleagues I, too, extend a warm welcome to you at this year's Annual General Meeting.

“engineering. tomorrow. together.” Three words that describe who we are, what we do and how we do it. Exactly a year ago here in Bochum we presented to you our new corporate branding. A new slogan, a new logo, a new design.

We linked this new branding with a **promise**. To our customers, that we will advance them with outstanding engineering. And to you, our owners, that we will **financially strengthen** thyssenkrupp.

We are getting enormously positive feedback for the new branding from our customers. Wherever I go, they tell us that they can sense the transformation of thyssenkrupp. That spurs us on.

Ladies and Gentlemen,

We are bringing “engineering. tomorrow. together.” to life every day. Your company thyssenkrupp is already being perceived much more for what it is and what it will be even more in the future: **a high-performing industrial group**.

- One example of what we mean by “engineering” can be seen in our exhibition in the foyer: a steering system for the cars of the future. We saw the potential of electric power assisted steering at an early stage and invested bravely in this new technology. It is the basis for modern assist systems and for autonomous driving. In the meantime we have already received orders worth over €8 billion. From the 2017/2018 fiscal year these will be reflected in sales. We are already taking the next step in our development efforts: with steering systems that have no mechanical link at all between steering wheel and wheels. The steering input will then be transmitted electronically – like in a plane. This will permit completely new and different car designs. For greater safety and comfort in the car.

- One example of what “tomorrow” means to us can be witnessed in Rottweil. There we have built a 246 meter tall **test tower for elevators**. It opened for research in mid-December. Three of the twelve shafts are intended for our new elevator system MULTI. It does without cables altogether, which means that several cabs can travel in one shaft, and not just vertically up and down but for the first time also horizontally. This is an absolute novelty in the over 150-year history of the elevator. It opens up completely new possibilities to architects of high-rise buildings. The basis for it is the combined technological expertise of thyssenkrupp – engineers from completely different areas of the business were involved in its development. We are already in discussions with architects, builders, town planners and metro operators around the world to market the MULTI.
- An impressive example of what we mean by “together” is being created in Duisburg. In the fall we began building a technical center for our **Carbon2Chem** project at Steel Europe. The aim is to use steel mill gases as a feedstock for the chemical industry – including the CO<sub>2</sub> they contain. It is the first time such a path has been taken in the steel industry. The special feature of the project is close collaboration across sectors. Altogether 17 partners are involved: universities, research institutes, energy companies, chemical companies – and our plant engineering experts at Industrial Solutions. Together we are making an important contribution to climate protection and the energy transition.

These examples show that we have our sights set firmly on the future of thyssenkrupp. Even in times of crisis we have invested systematically in research and development and expanded our manufacturing capacities. The future can only be successful if we both improve our efficiency and invest.

Ladies and Gentlemen,

The past fiscal year was not an easy one for thyssenkrupp. But despite adverse circumstances we made significant progress in implementing our Strategic Way Forward.

## **II. Despite difficult market conditions: revised targets for 2015/2016 achieved**

If you look at our key figures for 2015/2016, this statement may confuse you. Order intake, sales and adjusted EBIT are down from the year before. No question: at first glance this looks like a step back. But look again and you will see that we made **important steps forward**. We

held up well in our markets and made thyssenkrupp generally more stable – despite facing powerful headwinds from external factors.

Above all the **ruinous price competition** on the materials markets presented us with major challenges. It was caused by high overcapacities, in Asia, and particularly in China. Via cheap imports on unequal terms they had a devastating effect in Europe as well. At times prices for steel and other materials dropped as fast as after the financial crisis.

This impacted heavily on our results in the first half. That is why we revised our forecast in the middle of the year. It was not until late in the second half that the materials markets recovered slightly. Overall however the effects of the price pressure were so great that they overshadowed the progress made in our capital goods businesses.

- **Adjusted EBIT** for the full year was around €1.5 billion. That is a drop from the prior year and also less than we originally planned. However despite the difficult market environment we increased our operating earning power from quarter to quarter. In the final quarter our earnings were higher than a year earlier.
- Our **efficiency program “impact”** again made a significant contribution to this. With additional savings of almost €1 billion we were once again well above our target of €850 million. All business areas contributed three-digit million amounts.
- What matters particularly to you as shareholders is the bottom line: the **Group’s net income**. Despite the difficult environment we succeeded in holding net income level with the prior year at €261 million.
- The progress is particularly visible in our **cash flow before M&A**. After six months we were still expecting a negative to breakeven figure. But through the collective efforts of all business areas we achieved a positive cash flow before M&A of almost €200 million at the end of the year.

The volatility on the materials markets shows that we must continue with thyssenkrupp’s transformation into a strong industrial group. Our aim is to increase our share of capital goods and service businesses and achieve profitable growth. That will enable us to generate more stable earnings in the future. The Strategic Way Forward is our plan for transforming and

stabilizing thyssenkrupp and the appropriate response to an increasingly uncertain and volatile world.

Ladies and Gentlemen,

We have now made a net profit for the third year in a row and earned more money than we have spent for the second year in succession. This is a further important step forward in stabilizing our finances. Nevertheless we must remain realistic and honest: The long-term effects of our investments in the steel plants in the Americas and the crisis in 2008/2009 are still visible on our balance sheet.

- **Net financial debt** came to €3.5 billion, virtually unchanged from the prior year.
- **Equity** decreased to €2.6 billion. This was due to the further drop in the interest rate level. This led to an increase in pension provisions with a negative effect on equity of around €900 million. However this is purely an accounting effect. There was no outflow of funds.
- Our **liquidity position** remains very stable. At the end of September we had available liquidity of around €8.0 billion. We are therefore solidly financed.

## Dividend

Ladies and Gentlemen,

Against the background of our stable net income and improved cash flow before M&A, we have decided to go for continuity in our dividend policy too. The Supervisory Board and Executive Board are again proposing a dividend of **15 cents per share**.

We are aware that many of you would have liked to see a higher dividend. Others, with an eye on our financial situation, think it would be better to do without a dividend altogether. We chose a middle course. **Our proposal is balanced and appropriate**. On the one hand it takes into account your justified interests as owners. On the other it meets our balance-sheet needs, because we are using part of our net income to strengthen equity.

## **Stock performance**

Alongside the dividend, what counts for you as shareholders is the performance of our stock. With a gain of around 23 percent, thyssenkrupp was among the top-performing DAX stocks in 2016. But here too, there was a big difference between the first and second half of the year. Initially the price fall in the materials markets put considerable pressure on our share price and for a while overshadowed the progress made in our capital goods businesses. With the price recovery in the second half and the continuous improvement in our earnings, our stock rallied strongly. At the end of the fiscal year it was already back up to over €21.

Our share price trajectory is strong evidence that our strategy is right. If we continue to increase the share of profitable capital goods and services businesses, we will generate more stable and higher earnings in the future.

Most analysts share this view: Around 90% have a buy or hold recommendation on our stock, with price targets of up to €30. On the bond market too, thyssenkrupp is a top address. Our risk premiums on recent new placements have been much lower than those of other companies with similar credit ratings. That shows the capital market has faith in your company and believes our strategy is right.

## **III. Sustainable strength: Strategic Way Forward is our compass**

Ladies and Gentlemen,

At the start I said that we had given you a promise. We want to strengthen thyssenkrupp on a sustainable basis. Our progress can be seen by looking at a multi-year comparison:

- Our operating earnings have increased from €300 million to €1.5 billion in the past years.
- We have also been in the black again for three years now.
- For the second year in a row we earned more money than we spent.
- The Group's net financial debt has decreased by 40 percent.

- Since 2011 we have carried out refinancing measures totaling around €11 billion and at the same time significantly reduced our financing costs.

But in the interests of total honesty it must be said that we are not yet where we want to be. That's why we are continuing to work hard to implement our Strategic Way Forward in all areas of the company.

Three aspects of this are particularly important to me. First, we will not be pressured by external factors. Second, we will systematically work on the things that we can influence ourselves. And third, in everything we do we will keep our eye firmly on the future.

### **1. We will not be pressured**

When I say we will not allow ourselves to be pressured by external factors, what I mean is this: We have clear strategic targets and we act responsibly. With regard to implementation, time is not the decisive factor, but creating viable solutions. Solutions that balance out the opportunities and risks for thyssenkrupp.

This approach has already proved its worth in connection with Steel Americas. In 2013 it would not have been possible to sell the CSA plant in Brazil without significant risk. The diverse contractual relationships with our co-shareholder Vale were just too complicated. Our prudence paid off. In May 2016 we became the sole owner of CSA. We ended all the contractual arrangements apart from one standard ore supply contract. This significantly reduces complexity and risk. Finally in September 2016 we obtained the full operating license from the environmental agency. At the same time we are improving the plant's operating performance and, with support from the more positive market environment, generated clearly positive income in the 2nd half. All these improvements give us greater scope for strategic solutions – such as the targeted disposal of the company.

Acting responsibly is also our guiding principle in our talks on a possible **consolidation of the European steel industry**.

As you know, the entire industry is fighting for its future. Alongside enormous price pressure from imports from Asia, we are weighed down by overcapacities here in Europe. For years we have been unable to earn our cost of capital – even though Steel Europe is one of the two most profitable producers in Europe. Cost-reduction programs only afford a temporary

respite. Without radical changes we would inevitably have to initiate one restructuring program after another. Added to this are high risks and costs for energy and climate protection. We have always said that under these circumstances we believe a consolidation of the European steel industry is necessary. In a situation like this everyone talks to everyone. Among others, we are talking to Tata Steel.

But it still remains open whether, when and with whom such a step in consolidating the industry will take place. Such a step requires thorough preparation. And so we are conducting talks with Tata with great care. For example Tata would have to find a viable solution for its high pension obligations in the UK. Also, any possible joint venture will have to be based on a convincing business plan with corresponding synergies.

Some of you may be skeptical about these talks. After all, the steel division is where our company started. For others, a solution for Steel Europe can't come soon enough. We see the strategic need. And we too would like a speedy solution, but it has to be a **good solution**. A solution that secures the future of steel production in Germany and Europe – and that takes time. This is not just in the interest of the Group as a whole. Above all we owe Steel Europe's 27,000 employees a good and responsible solution.

Ladies and Gentlemen,

It's very important to me to stress that our colleagues at Steel Europe did a fantastic job last year. The same is true of the two other materials business areas Materials Services and Steel Americas. Just to give you an idea of how strong the headwind was in the first half of the fiscal year: In the materials business areas together we generated sales of €10 billion. But no profit. Adjusted EBIT was minus €11 million. You can imagine how frustrating that must be for the team.

Not giving up at a time like this but holding course with courage and confidence – that too is what I mean when I say we will not be pressured. The same materials businesses that were in the red in the first half made a profit of more than €400 million in the second. This was one of the reasons we achieved our revised full-year targets. It was a great **team effort by all six business areas**. And for this I would like to thank all 156,000 employees of thyssenkrupp!



Ladies and Gentlemen,

We are convinced that our way forward is taking us in the right direction. We are sticking to our minimum long-term target of **€2 billion adjusted EBIT** and clearly positive free cash flow. For the current fiscal year we are already targeting **adjusted EBIT of around €1.7 billion**. That will move us closer to our earnings target. It is too early yet to provide a detailed view of our business performance in the first quarter. But the way things are going I can say that the first quarter will be in line with our guidance. So we are well on track to achieving our full-year targets.

## **2. We are concentrating on the things we can influence ourselves**

The world and our markets are characterized more and more by **uncertainty and volatility**. Unpredictable political events are constantly changing the conditions in which we operate – for example the outcome of the US presidential elections, Brexit, or the removal from office of the Brazilian president. We have no influence over this. But this doesn't mean we are just being swept along by these changes or waiting to see what happens. Instead we are structurally and systematically improving the things we can influence ourselves.

As a result we are not just relying on a further recovery of prices and markets. On the contrary, for each business area we have defined **clear targets based on sector benchmarks**. All our units are working on concrete measures to improve their performance. Progress and success are measured centrally and continuously. Industrial Solutions and Steel Europe have also initiated extensive change programs.

Let us first take a look at Industrial Solutions. Here our customers are very reluctant to commit to major orders. So the business area needs to become more flexible and efficient and move closer to its customers. The new organizational structure with a stronger regional presence is a central element in this. It is focused even more firmly on customers and business fields. In the future our global project management expertise will be combined in a new unit. This will allow us to use the know-how of our engineers more effectively to the benefit of our customers. We are also strengthening our service business in a dedicated business unit. Going forward we will not only build industrial plants, increasingly we will also offer our customers tailored lifecycle maintenance solutions.

At Steel Europe we also have a holistic strategy program aimed at sustainably increasing our earning power. The program pursues four main objectives: a much stronger focus on markets and customers, closer integration of our diverse steel businesses, greater efficiency in our core activities, and the continuation of our culture change. The aim is to further encourage collaboration across all functions, sites and businesses and thus improve our efficiency going forward. We will therefore once again increase our research and development spending at Steel Europe this year and make further investments, for example in a new ladle furnace for high-strength steel grades.

At the same time we are also investigating further necessary restructuring measures. This process started in fall last year and is certain to last until the early summer. No results or decisions regarding sites or plants are available at present. The codetermination representatives have been informed about the process and will of course be involved more closely as soon as concrete assessments have been made.

### **3. We have a firm eye on the future**

That brings us to the third aspect, our clear focus on the future of thyssenkrupp. We are convinced that innovations are the key to this. That's why we are increasing our spending on **research and development** year by year. Last fiscal year alone we invested €778 million in R&D, taking the total spend since 2011 to more than €3.5 billion.

This is resulting in promising and groundbreaking **innovations**. With our cable-free MULTI elevator system, all-electronic steering systems and our collaborative project Carbon2Chem I presented three outstanding examples at the beginning.

But for us, driving innovation also means systematically utilizing the huge **opportunities offered by digitization**. In almost all areas – from steelmaking and auto components to elevators and plant engineering – we are already integrating “big data” and the “internet of things” into our business processes. We are not just doing this in pilot projects, but in day-to-day industrial applications with concrete benefits for our customers.

For example, last year we reported to you on our cooperation with Microsoft. Together we brought predictive elevator maintenance to the market. Intelligent networking allows our **MAX** system to recognize potential faults, enabling local service technicians to plan and carry out maintenance before a malfunction occurs.

We have now extended this successful cooperation with Microsoft to the **HoloLens**, a special headset which gives our service technicians on callouts remote access to technical information on the elevator and expert guidance via webcam – and it's all completely hands-free. Try it out for yourselves. Among the exhibits on display in the foyer you'll also find a HoloLens headset you can try on. There are now good examples of successful digitization in all our business areas.

#### **IV. Conclusion: Skills for business success in the digital age**

Ladies and Gentlemen,

Customers all around the world value our unique engineering expertise. The thyssenkrupp brand stands for technologies and innovations, for solutions that conserve resources and advance our customers. That's what the "engineering" part of our slogan stands for. It is what connects all business areas of thyssenkrupp.

When we talk about "tomorrow", social acceptance of our company plays an important part. For energy-intensive companies like thyssenkrupp, the topic of sustainability is of major relevance. We measure all relevant environmental KPIs each year and are making a strong contribution to reducing greenhouse gas emissions. This high level of transparency and the associated savings targets are also being recognized externally. thyssenkrupp has been ranked as a world leader in climate protection by the non-profit organization CDP (formerly Carbon Disclosure Project). CDP has placed thyssenkrupp on its global "Climate A List", the highest possible ranking, which includes fewer than 200 companies worldwide. And for the fifth time in a row since 2012 the Group is also rated as one of the best companies in the region Germany, Austria and Switzerland.

One of our medium-term targets is to improve energy efficiency by around 3.5 terawatt hours by 2020. That is equivalent to the output of more than three large commercial offshore wind farms and emissions reductions of around 1.3 million tons. To date we have already achieved savings of 2.75 terawatt hours.

Ladies and Gentlemen,

Our new brand identity is also an expression of the far-reaching **culture change** we have introduced at thyssenkrupp. Here too we have moved another step forwards. That is shown by the results of our second global employee survey. We further increased our employee participation rate. In eleven out of 14 areas our employees scored us higher than two years ago. These included the extremely important areas occupational safety and health, compliance, collaboration, and feedback culture. Despite this result there is still plenty to do. But we are moving in the right direction. Employees can see that we take our transformation seriously and they are noticing improvements. That's important, because "together" also stands for collaboration within the company.

And we will continue along this path of change – in all areas of the Group. We are working systematically on our performance. We are investing bravely in innovations. We are confidently utilizing the opportunities of digitization. Because we are convinced that in this way we will sustainably strengthen our company thyssenkrupp. Just as we promised you we would.

Thank you for your support on our way forward and for your attention.