

thyssenkrupp and Tata Steel plan to create powerful new No. 2 in European steel market

- Memorandum of understanding signed to combine European steel activities in 50/50 joint venture
- Positioning as strong quality and technology leader
- Annual synergies of €400 million to €600 million expected
- Signing of agreement targeted for early 2018 and closing by 2018 year-end

thyssenkrupp and Tata Steel have today signed a memorandum of understanding to combine their European steel activities in a 50/50 joint venture. Their aim is to create a leading European flat steel player to be positioned as quality and technology leader. The new entity is set to have pro-forma sales of about €15 billion and a workforce of about 48,000, currently at 34 locations. Shipments are envisioned to be about 21 million tons a year.

Dr. Heinrich Hiesinger, CEO of thyssenkrupp AG: **“Under the planned joint venture, we are giving the European steel activities of thyssenkrupp and Tata a lasting future. We are tackling the structural challenges of the European steel industry and creating a strong No. 2. In Tata, we have found a partner with a very good strategic and cultural fit. Not only do we share a clear performance orientation, but also the same understanding of entrepreneurial responsibility toward workforce and society.”**

Natarajan Chandrasekaran, Chairman of Tata Steel: **“The Tata Group and thyssenkrupp have a strong heritage in the global steel industry and share similar culture and values. This partnership is a momentous occasion for both partners, who will focus on building a strong European steel enterprise. The strategic logic of the proposed joint venture in Europe is based on very strong fundamentals and I am confident that thyssenkrupp Tata Steel will have a great future.”**

To be named thyssenkrupp Tata Steel, the planned joint venture will be managed through a lean holding company based in the Netherlands. It is to have a two-tier management structure comprising a management board and a supervisory board. Both boards are to have equal representation from thyssenkrupp and Tata. The codetermination structures in Germany, the Netherlands and Great Britain will be retained.

thyssenkrupp intends to contribute its Steel Europe business to the planned joint venture. There are also plans for the joint venture to include thyssenkrupp MillServices & Systems GmbH, a steel mill services provider that is part of the Materials Services business. Tata would add all of their flat steel activities in Europe.

The memorandum of understanding signed today paves the way for thyssenkrupp to involve employee representatives at thyssenkrupp AG and in the Steel business in the process ahead on an ongoing basis. All employee participation rights will continue to be respected as before.

In the months ahead, due diligence will be conducted. In the process, the negotiating parties will give each other access to confidential business documents to the extent permissible between competitors. Based on this as well as on discussions with the entire Supervisory Board, it is envisaged to sign a contract in early 2018. Closing – the effective start of the joint venture – could take place in late 2018 following antitrust approval by the relevant authorities.

Synergies within the joint venture

In the initial years – from closing onward – the joint venture partners plan to focus on establishing the joint venture and leveraging synergies. These are anticipated among other things from integrating sales, administration, research and development, joint optimization of procurement, logistics and service centers as well as improved capacity utilization in downstream processing. After the ramp-up phase, the joint venture partners expect annual synergies of €400 million to €600 million.

Additionally, the production network is to be reviewed starting in 2020 with the aim of integrating and optimizing the production strategy for the entire joint venture. It is not yet possible to quantify the additional synergies from this integration in detail. The scope for optimization also depends on numerous external factors such as the outcome of the Brexit negotiations and the implications that follow. Other external parameters include the development of the regulatory environment in areas such as emission trading and international trade policy.

The two joint venture partners expect that leveraging the cost synergies across the entire entity will require a reduction in workforce over the years ahead by up to 2,000 jobs in administration and potentially up to 2,000 jobs in production. This burden is expected to be shared roughly evenly between the two parties, which means a total of about 2,000 jobs at thyssenkrupp.

“We will not be putting any measures into effect in the joint venture that we would not have had to adopt on our own. On the contrary: By combining our steel activities, the burdens for each partner are lower than they would have been on a stand-alone basis,” said Hiesinger.

The steel industry has faced massive challenges in Europe for many years: Steel demand is characterized by a lack of dynamic. There is structural overcapacity in supply and constantly high import pressure. This leads to the fact that various stages in the value chain are operating well below capacity. Consequently, all producers are under pressure to fill capacity and forced to pass on restructuring gains to the market time and again. The result is a downward spiral and a need for restructuring about every three to four years, with major steel assets coming under threat of closure in the medium term.

Reasons for partnering with Tata Steel

There are five reasons why combining the European steel activities of thyssenkrupp and Tata is the best possible next consolidation move:

Economies of scale: Economies of scale are a key success factor in a market caught up in ongoing consolidation. Combining the No. 2 and No. 3 in Europe results in a powerful new No. 2 for quality flat steel with a very competitive market position and promising growth prospects.

Complementarity: The businesses of thyssenkrupp and Tata are a good complementary fit. thyssenkrupp is stronger in the OEM sector while Tata's strength lies with industrial customers. The main operating locations in Duisburg, IJmuiden and Port Talbot have good logistics links and serve customers in different, economically powerful regions. That makes for significantly broader overall coverage of customer sectors throughout Europe.

Performance orientation: The steelworks of thyssenkrupp and Tata rank among the most efficient facilities in Europe. Thanks to effective cost management, both producers operate at a profit. The two companies have paved the way for this over recent years, piece by piece and independently of each other: Tata, for instance, with the restructuring of Port Talbot and by selling long steel activities, and thyssenkrupp with the sale of CSA and capacity adjustment at HKM.

Innovative strength: Both partners aspire to quality and technology leadership in the European steel industry and continually develop innovative products and solutions for customers. High-tech steels are frequently the basis of industrial value chains in Europe and a key competitive differentiator.

Culture and capabilities: The two partners each have a highly capable and dedicated workforce who strongly identify with their company. thyssenkrupp and Tata have a cultural DNA equally characterized by the will to embrace change in order to secure their future. And both companies have the backing of strong shareholders through a trust structure that perpetuate the ideas and values of the original owners.

Further milestone on strategic way forward

Steel Europe will be accounted for on the balance sheet as a discontinued operation after signing. From closing of the transaction, the 50-percent share in the joint venture will be accounted for using the equity method, meaning based on the proportionate carrying amount of the investment. When the joint venture comes into effect, this will bring about a significant improvement in key balance sheet ratios for thyssenkrupp AG, most notably in the equity ratio and in gearing (ratio of net financial debt to equity). At the same time, the move creates a solid financial structure for the steel business.

The planned joint venture marks another key milestone on thyssenkrupp's strategic way forward. In its evolution into a strong industrial group, thyssenkrupp has two priority aims: reducing dependency on the highly volatile steel business and enabling optimum development of all business areas.

Heinrich Hiesinger, CEO of thyssenkrupp AG: **"We have always targeted the best solution for thyssenkrupp. A joint venture with Tata is the only option that addresses the structural overcapacities in the European steel market, that creates substantial added value through synergies and at the same time is in line with our corporate culture. This also marks a clear commitment to our roots, as the joint venture enables thyssenkrupp to retain its involvement in steel."**

We hereby like to invite you to our press conference with our Members of the Board of thyssenkrupp AG

today, Wednesday, 20 September 2017 at 10:30 am CEST at the thyssenkrupp Corporate Headquarters in Essen.

Please find additional details for our press conference in our separate invitation.

Please find additional information here: www.thyssenkrupp.com/way-forward-for-steel

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