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Panel 1: International Financial Reporting Standards (IFRS)
– Initial Experiences

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ThyssenKrupp and IFRS –
Living IFRS in an International Business Group

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Panel 1: International Financial Reporting Standards (IFRS) - Initial Experiences
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IFRS Conversion Timeline

- Publicly traded EU-companies are required to move to IFRS accounting for fiscal years starting on/after January 1, 2005 (EU Reg. No. 1606/2002)
- Interim report Q1 2005/2006 was the first financial statement under IFRS
- Reporting under US GAAP is discontinued

<table>
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<tr>
<th>IFRS transition date</th>
<th>IFRS reporting date</th>
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<tr>
<td>Q1</td>
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<td>Q2</td>
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<td>Q4</td>
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<td>Oct 1, 2004</td>
<td>Sep 30, 2005</td>
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<td>IFRS opening balance sheet</td>
<td>Last consolidated US GAAP financial statements</td>
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<td>Sep 30, 2006</td>
<td>Sep 30, 2006</td>
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<tr>
<td>First consolidated IFRS financial statements</td>
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Key Observations

- No material impact on key performance indicators
  - EBT mainly impacted by losses of reclassified discontinued operations
  - Net income 2004/2005 slightly increased to €1,079 million
  - Cash generation not affected by IFRS conversion

- Effects on balance sheet
  - Conservative asset valuation due to IFRS impairment approach
  - Improved transparency due to full recognition of pensions/healthcare obligations
  - Actual impact on balance sheet lowered by deferred taxes
  - Change in equity cushioned

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Looking Back at US GAAP

What was convincing?

- Widely accepted
- Very well integrated into financial community
- Pragmatic and business-focused

What was less impressive?

- US-dominated, exposure to US jurisdiction – it is just another local GAAP
- Limited flexibility in an international arena
- Casuistic approach ("cookbook accounting")
Convergence Issues for Non-SEC-Registrants

- Achieve mutual acceptance in financial community
  - To reduce focus of financial community on US GAAP

- Reduce additional complexity of US GAAP involvement
  - To simplify competitor analysis
  - To simplify M&A transactions

- Learn from US GAAP standard setters
  - To benefit from US GAAP pragmatism for IFRS development

- Synchronize European standard setting and endorsement process
  - To strengthen European influence on global standard setting

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Accounting Standard Profile (I)

Useful

Reliable

Global

Accepted

IFRS

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Accounting Standard Profile (II)

**Useful**
- For decision making both for investors as well as management
- Adequately complex

**Global**
- Similar accounting for similar transactions

**Reliable**
- True-to-life picture of economic substance
- Surprises – if any – should result from business, not from accounting

**Therefore Accepted**
- A common “currency/language” that does not need translating and interpreting

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# How Can Convergence lead to a Better Accounting Standard?

1. **Useful**
   - Develop business-oriented principles

2. **Global**
   - Eliminate diversity

3. **Reliable**
   - Limit fair value approach, i.e. maintain integrity of historical cost accounting

4. **Accepted**
   - Develop a common taxonomy *(XBRL)*