FITCH REVISES THYSSENKRUPP OUTLOOK TO STABLE; AFFIRMS AT 'BBB-'

Fitch Ratings-London/Frankfurt-30 July 2010: Fitch Ratings has today revised Germany-based ThyssenKrupp AG's (TK) rating Outlook to Stable from Negative. Fitch has simultaneously affirmed TK's Long-term Issuer Default Rating (IDR) and senior unsecured rating at 'BBB-' respectively, and its Short-term IDR at 'F3'.

The revision of the Outlook to Stable reflects the company's strong performance year-to date against Fitch's previous base rating case for 2010. This case included flat revenues, significantly negative free cash flow (in excess of EUR3.0bn), and only a marginal improvement in profitability. Fitch now expects TK to record earnings before tax (EBT) in FY2010 well above previous expectations in the low three-digit million range. Revenue growth in FY2010 is however likely to remain weak. Fitch does now not envisage the deep, protracted global recession which formed a key risk driving the previous Negative Outlook. Uncertainty does however exist regarding steel demand trends in Q4 2010 (calendar year) and beyond, and with respect to TK's ability to pass through raw material price increases to end customers.

Despite a decrease in sales of 9% y-o-y in the first half of FY10, earnings rose sharply with reported earnings before tax (EBT) of EUR504m compared to a loss of EUR215m for the comparable period in FY09. Fitch notes that the order intake in TK's core Steel Europe business area increased significantly by 64% period-on-period. This positive trend in earnings is expected to continue into the third quarter (for the period ending 30 June 2010), although Fitch expects Q4 2010 to be weaker due to seasonal factors and start up losses in the group's Steel Americas business area. The Stable Outlook assumes that the ramp-up phase for the company's new Brazilian steel mill and US processing plant progresses according to plan.

Funds from operations (FFO) adjusted gross leverage is now expected to be in the range of 3.0-3.25x in 2010 (previously forecast in excess of 3.75x), falling to around 2.5x in 2011. The group's solid liquidity of some EUR9.4bn as at H110, including cash and equivalents of EUR4.6bn, continues to be a key supporting factor for TK's credit profile (TK's core EUR2.5bn syndicated credit facility matures in 2014). The group's debt maturity profile is also well balanced with the bulk of total debt of EUR7.3bn as at H110 maturing after FY12, while short-term debt was at a moderate EUR1,306m at H110. TK continues to have a significant accrued pension liability of EUR6bn. Under its pension criteria Fitch does not view this amount as debt, but rather considers the annual cash cost which - while significant at around EUR560-570m annually - remains manageable for the group.

Steel demand and pricing trends in Western Europe over the past 6-9 months have been supported by restocking by end-consumers and service centres together with modestly rising real demand. With restocking now largely complete, a level of uncertainty exists regarding demand levels in the second half of 2010. Nonetheless, Fitch does not expect demand trends to deteriorate to the very weak levels experienced in early 2009. Another area of uncertainty for steel producers is their ability to pass through significant raw material price increases (iron ore and coal) which have resulted from the move from annual supply contracts to quarterly contracts based on spot prices. Fitch expects TK to have good success in passing through cost increases to its core steel customers in the automotive industry, whilst at the same time factoring in some margin compression starting in Q4 2010 (calendar year).

The ratings continue to reflect TK's strong market positions in a wide range of businesses, including high quality flat carbon and stainless steel and elevators, as well as in selected engineering and services activities, with good geographical and sector risk spread. Fitch believes that TK, as a well diversified industrial conglomerate, generally enjoys greater stability from portfolio effects compared with many focused steel competitors.

Applicable criteria, 'Corporate Rating Methodology', dated 24 November 2009 and 'Corporate Pensions Criteria - EMEA and Asia-Pacific', dated 15 April 2010, are available at www.fitchratings.com.

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