Report of the Management Board

Management Report 2015/16

This Consolidated Management Report refers to the Consolidated Financial Statements, which were prepared in accordance with the International Financial Reporting Standards (IFRS) as mandated by Section 245a of the Austrian Commercial Code *(UGB).* We have made use of the provision under Section 267 (4) of the Austrian Commercial Code, which permits the consolidation of the Management Report and the Group Management Report.

Report on the Group's business performance and the economic situation

The business year 2015/16 was characterized by very specific challenges, both relative to economic and geopolitical factors. While at the beginning of the business year, the uncertainty regarding the further development of the Chinese economy with all of its global effects on both the raw materials and the end consumer markets was at the center of attention, subsequently, the focus turned to the political and military situation in the Middle East that resulted in an unexpectedly rapid migration movement to Europe on a scale that had never been seen before. During the course of the year, economic challenges grew globally due to the dramatic deterioration of the oil price, which is also a first in recent history, and negative interest on bank savings in Europe for the first time ever. When the early indicators for manufacturing in North America signalized a downward trend toward the end of the business year, the international capital markets came under increasing pressure.
As a result of these developments, the exchange rates between the major global currencies shifted—in some cases dramatically—with corresponding consequences for global trade flows, which were additionally impacted by the erection of trade barriers (primarily as anti-dumping measures) as a reaction to artificial (state) interference in pricing mechanisms in a number of countries. After decades of globalization and increasingly opening markets, this could mean a certain trend reversal toward isolationism—at least in individual economic areas—with a return to greater regionalization.
Considering all of these developments, the fact that the once promising markets Brazil and Russia slid even further into recession during the business year 2015/16 is merely a side note.
Despite this very challenging environment, by concentrating on the technologically sophisticated market segments, the voestalpine Group was able to enjoy a very stable development overall.

Europe

In Europe, the moderate recovery trend that began last year continued in 2015/16. Despite the resumption of discussions about the situation in Greece in the early part of the business year, which were then displaced in the awareness of the public by the mass flows of people fleeing from the crisis zones in the Middle East, consumer behavior remained largely stable and thus the main driving force behind economic development that was still somewhat positive. The voestalpine Group benefited from this in all segments of the consumer goods and white goods industries and especially from the strong performance of the European automotive industry. The Group units aerospace and railway systems that also belong to the mobility segment, which is a strategic focal point, also showed a quite positive trend in demand throughout the entire business year.
All in all, while Europe saw a service sector that performed solidly in many areas, investment

This report is a translation of the original report in German, which is solely valid.

activities remained below average. Besides the fact that, in many countries, the public sector continues to be cautious in contracting new projects, it was particularly the weakness in a significant part of emerging market economies that resulted in exports remaining at a subdued level despite the devaluation of the common EU currency, the euro. The new reduction of interest rates and another acceleration of the bond-purchase program of the European Central Bank toward the end of the business year generated a brief positive reaction on the capital market, however, this did not have a substantial impact on the real economy.
Accordingly, the construction sector remained mostly weak and the mechanical and plant engineering sectors remained more or less subdued throughout the entire year.
Despite the European steel industry's quite satisfactory situation relative to demand in the first half of the business year, beginning in the fall of 2015, there was a dramatic decline in the steel prices on the spot market, triggered by the surge in imports primarily but not exclusively from China at prices that were, to some degree, not feasible economically. While the voestalpine Steel Division was not directly affected by this development due to its focus on the range of steel industry products that are technologically and qualitatively sophisticated, it could not hold out entirely against this massively negative price sentiment. Nevertheless, it ultimately achieved an improvement in its operating result in a comparison to the same period in the previous year.

USA / North America

The business year saw the first signs of weakening economic momentum in the USA after a continuing upward trend over the course of several years. This was triggered by the drastic decline of the oil price, which had increasingly negative collateral effects on the supply industry and the service segment. Although the effects on the voestalpine Group were not immediate, this has been felt particularly by the Metal Engineering Division (seamless tubes/OCTG) and the Special Steel Division (special materials for oil and natural gas exploration).
Momentum in the private consumption and service sectors largely compensated this weakness so that the economic trend in the USA was ultimately marked by a dynamic pace throughout most of the past business year. This benefited the Special Steel Division in the production of tool steel for the consumer goods industry and the Metal Forming Division in the automotive sector, which maintained its positive trend in North America throughout the past business year. Demand in the railway systems sector was also stable, benefiting from increased investments in the mass transit sector. The aerospace sector has seen its high level of momentum continue, which benefited the Special Steel and Metal Forming Divisions especially.
Toward the end of the business year, disappointing early indicators in manufacturing created broad-based uncertainty with regard to the USA's economic development, and this immediately generated a negative reaction on the stock markets. This, however, did not impact the private consumption and service sectors, which maintained the economy as a whole on a growth trajectory. Not least due to solid labor market data, the Fed (Federal Reserve) took a first step away from its low-interest-rate policy and increased the interest rate for the first time since 2006 by a quarter of one percent from 0.25 to 0.50 percent. This step, which had been discussed extensively and put off many times is viewed mainly as a signal that the US economy is finally "out of intensive care" and is back on the road to normal conditions.
Except for the USA, which dominates the NAFTA region, the economic development in North America has been largely unspectacular. In the past business year, Mexico has been characterized by a continuing upward economic trend, while Canada's economy remained subdued.

Brazil / South America

Contrary to original expectations, which had been based more on hope than facts, Brazil, the most important South American economic region, was not able to stabilize its economy in the past business year, but instead the country slid even further into recession. Added to its economic problems that have been festering for some time, with massive inflation and corresponding cost implications, as well as a high interest rate and negative economic growth, there are corruption scandals and serious political crises that have peaked, at least temporarily, with the recent impeachment of President Dilma Rousseff.

The general cooling of the global economy, driven by a negative growth trend in most of the emerging markets, China in particular, has been accompanied by falling demand for raw materials, which has had an especially profound impact, as Brazil's economic output is disproportionately dependent on the exports of these goods. Even the substantial devaluation of the real, the Brazilian currency, had limited effect.

Even though this situation has benefited the voestalpine Group and the export performance of the Special Steel Division, which operates a special steel plant in Brazil that produces high-quality tool steel and special materials, this plant and the other voestalpine sites in the country have kept their operating results stable and positive only by implementing strict cost-cutting and efficiency improvement measures.

The political and economic situation in Venezuela is, however, far more difficult than that of Brazil, while Argentina has undertaken a series of measures recently to shore up its economic stability. Overall, South America—with the exception of Brazil—cannot be viewed as a core market for the voestalpine Group for the foreseeable future.

China / Asia

After a decade of extremely strong growth that was centrally managed by the Chinese government, largely through development of infrastructure and state-sponsored construction, the country saw a significant weakening of growth as it reorients itself toward a free market economy whose structure is increasingly driven by consumerism. This process is accompanied by a broad-based uncertainty, and this was demonstrated by greater volatility on the international, and especially on the Chinese, capital market. The government reacted with extremely unorthodox methods (e.g., circuit-breaker mechanism) that resulted in a short-term easing of the situation, but then subsequently created even greater uncertainty.

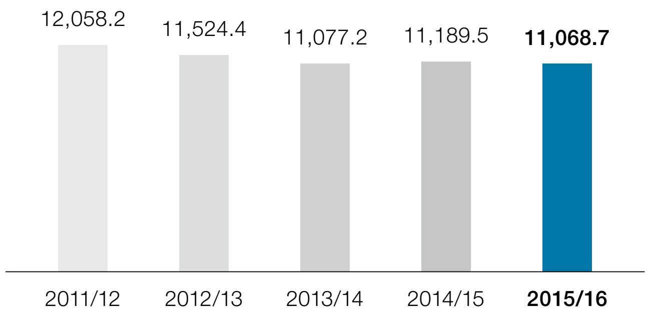
In the second half of 2015, a downtrend in the construction industry and particularly, the trend in new car registration statistics led to fears that a broad-based weakening of the Chinese economy could be in the offing. While automobile sales were stimulated in the short term by way of tax benefits, in the course of the year, there were growing indications of a more serious softening of the economy as a whole. The Chinese central bank reacted to this with expansive monetary policies and a devaluation of the currency. While this stabilized the economy for the moment, it nevertheless raised the international level of anxiety regarding the condition of the Chinese economy.

voestalpine's activities in China were largely unaffected by these developments, as the Group is not involved in the Chinese construction industry with the exception of railway infrastructure, which continues on a course of accelerated expansion. The premium segments of the automotive industry and the manufacturing of consumer goods, segments that have great importance for the Group, have not been significantly affected by the slowdown.

Very significant effects of the development in China became noticeable in Europe during the second half of the calendar year. The decline in infrastructure investment and construction activities in China resulted in a substantial slowdown in demand for commodity steel grades. The Chinese steel manufacturers, which are continuing to expand despite their enormous overcapacity, reacted to this by cutting prices to an extent that cannot be matched by other steel producers as well as massive exports to markets outside of China. As a result, prices for steel commodities deteriorated drastically worldwide, and many economies, such as the USA, Mexico, Brazil,

Revenue of the voestalpine Group

In millions of euros



India, and Australia reacted with import restrictions as part of their anti-dumping measures. In Europe, the EU Commission was not able to rouse itself to adopt comparable sanctions so that the borders remained open for Chinese steel being sold at artificially low prices. The effect was that European spot prices fell to a level that was even lower than anything seen at the height of the financial crisis. Therefore, a number of European steel manufacturers ran into serious economic difficulties as a result. The culmination of this development thus far was the announcement by the Indian Tata Group that they planned to sell off their steel business, which is plagued by high deficits.

In China itself, economic sentiment at the beginning of the Chinese New Year was comparatively positive, driven by encouraging remarks by the central government on the subject of economic recovery. Nevertheless, the development of the Chinese steel industry, including the main raw materials, continues to be highly volatile, in other words, without any clear direction. The effects of this environment on the steel business of the voestalpine Group have remained relatively moderate, as the activities of the Steel Division are all on a directly contractual basis with long-term customers and not on the spot market on one hand and on the other, are of a completely different quality than commodity products.

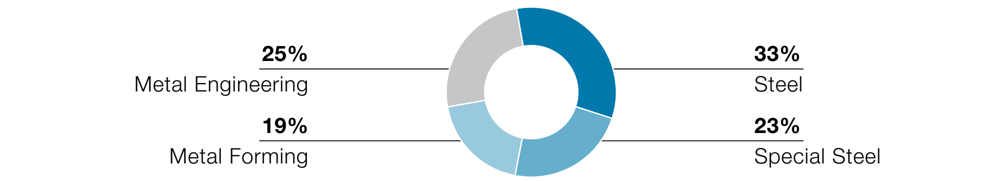
Business performance of the divisions

From voestalpine's perspective, demand for high-quality steel products remained at a solid level during the course of the year. Steel prices on the European spot market did come under increasing pressure due to the growing import volume of cheaper products, especially from China and Russia, and the decline of raw materials prices. Despite its orientation toward quality across the board and its focus on customer partnerships underpinned by long-term agreements, the Steel Division was not able to remain completely immune to the resulting extremely negative sentiment. Nevertheless, the division increased its earnings somewhat in 2015/16 compared to the previous year, due to the ongoing improvement of the product mix and the positive effects of the continuation of efficiency improvement and cost-cutting projects.

In a year-to-year comparison, the economic environment of the Special Steel Division in the business year 2015/16 lost momentum in some

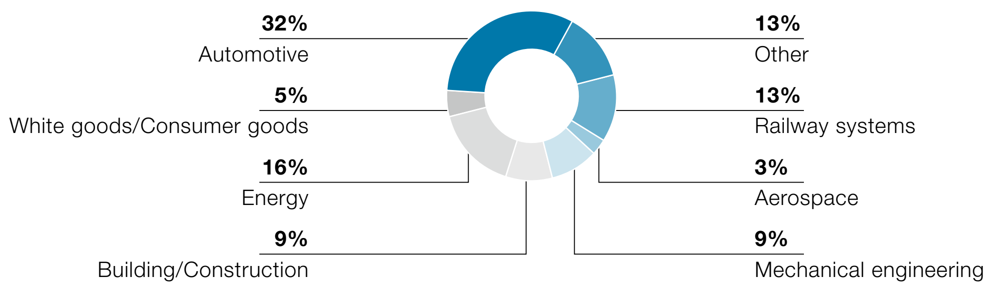
Revenue by divisions

As percentage of total divisional revenue
Business year 2015/16



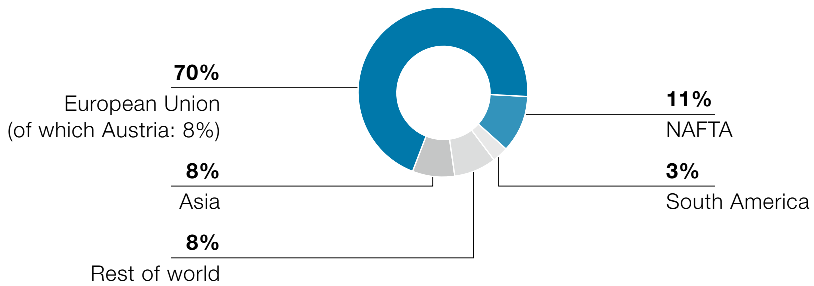
Revenue by industries

As percentage of Group revenue
Business year 2015/16



Revenue by regions

As percentage of Group revenue
Business year 2015/16



customer segments. Besides the power plant construction segment, which has been weak for years, there was a very considerable softening of demand from the oil and natural gas exploration and production sectors due to the oil price that has remained low. Incoming orders from the mechanical engineering industry were also marked by lower demand. However, there were positive impulses from the automotive and aerospace industries. Viewed regionally, economic momentum in Europe was modest, while business in Asia and North America in the most important customer segments continued at a satisfactory level in contrast to Brazil, where an end to the economic crisis is not foreseeable. Overall, the Special Steel Division reached an earnings level that was slightly below that of the previous year but reflects a very solid performance considering the difficult market environment.

The performance of the Metal Engineering Division in 2015/16 was characterized by outstanding progress in the railway systems sector, continuing momentum as far as demand from the automotive industry is concerned, but very diminished investment activity in the oil and natural gas industries due to the decline of the oil price. The negative trend was countered by comprehensive cost-cutting measures and adjustments in the personnel sector in the Seamless Tubes business segment as well as far-reaching restructuring measures in the Welding Consumables business segment. Due to the very steep drop in the energy sector, the adjusted earnings of the Metal Engineering Division in 2015/16 were somewhat below last year's figures.

The performance of the Metal Forming Division was very solid, characterized by continuing strong demand from the automotive industry (Automotive Body Parts), both in Europe and in the new locations in the USA, China, and South Africa. Global demand for high-bay and other racking systems (Warehouse & Rack Solutions business segment) was similarly gratifying. The picture for special sections (Tubes & Sections business segment) was somewhat more differentiated. In the past business year, this segment enjoyed moderate momentum in its core European markets and strong tailwinds from the British and North American markets, but the market environment in Russia, Brazil, and China remained challenging. The economic conditions with respect to precision strip (Precision Strip business segment) continued to be satisfactory despite increasing competition from emerging markets. Against this backdrop, the Metal Forming Division significantly surpassed the earnings figures (adjusted for non-recurring effects) in the previous year.

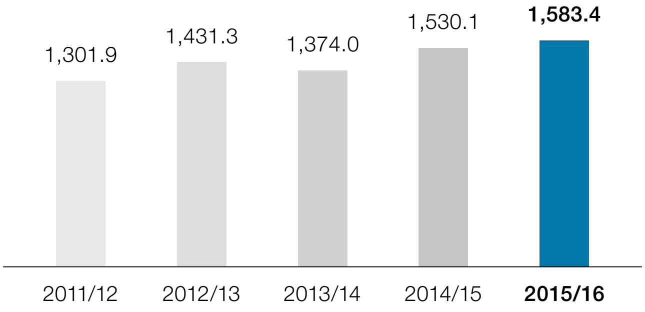
Report on the financial key performance indicators of the voestalpine Group

Revenue and operating result

In 2015/16, the revenue generated by the voestalpine Group was EUR 11,068.7 million, exactly 1.1% below the previous year's figure of EUR 11,189.5 million. The main reasons are the generally lower price level due to declining raw materials and pre-material costs in all four divisions as well as the streamlining in the Metal Forming Division in the business year 2014/15, which resulted in a drop in revenue of around EUR 100 million due to the sale of companies that were no longer relevant to the Group's core activities (Flamco Group and plastics companies, both in the Netherlands, and Rotec AB, Sweden).
Furthermore, the volume delivered was slightly below the previous year's level due to the (scheduled) major repair of blast furnace 5 in the Steel Division and in the Special Steel Division as a result of the substantial softening in the oil and natural gas sector. Expansion of investment, particularly in the Special Steel Division, supported revenue generation, as did the continuing development of internationalization activity in the Metal Forming Division. In the Metal Engineering Division, the companies acquired in the business year 2014/15 in the special wire

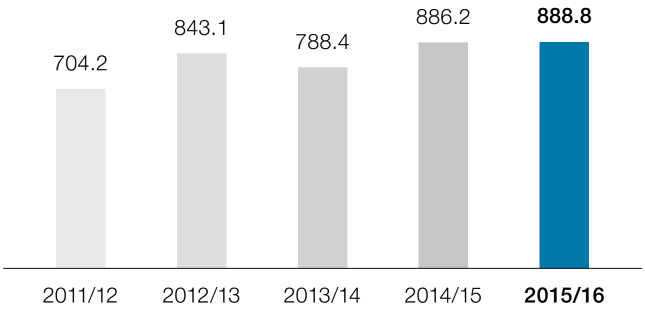
EBITDA

In millions of euros



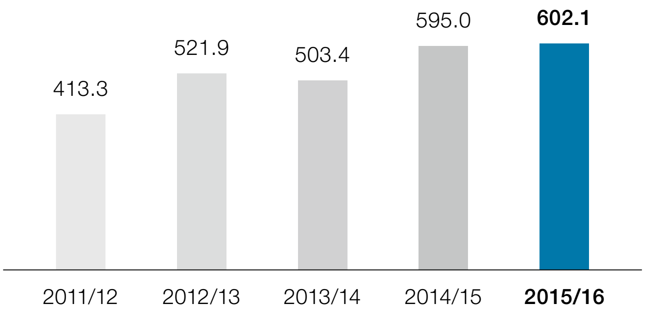
EBIT

In millions of euros



Profit after tax

In millions of euros



segment (Trafilerie Industriali S.p.A., now voestalpine Wire Italy s.r.l., Italy) and the turnout systems segment (Bathurst Rail Fabrication Center, BRFC, Australia), contributed to an increase in revenue in the past business year. The greatest contribution to a boost in revenue in this division in absolute figures, however, resulted from positive effects of the first-time consolidation of companies previously consolidated at equity (voestalpine Tubulars GmbH & Co KG, voestalpine Tubulars GmbH, both in Austria, and CNTT Chinese New Turnout Technologies Co., Ltd., China). This means that the Metal Engineering Division was the only division in the voestalpine Group that saw an increase in revenue in 2015/16.

The consolidated operating result (EBITDA) in the past business year rose by 3.5% to EUR 1,583.4 million (previous year: EUR 1,530.1 million), which corresponds to a reported EBITDA margin of 14.3% (previous year: 13.7%). However, the reported results contained substantial non-recurring effects both in the previous year and in the business year 2015/16. In 2014/15, the non-recurring effects resulting from divestments and other structural measures in the Metal Forming Division amounted to a total of EUR 61.9 million reported in EBITDA and EUR 45.2 million reported in EBIT. The current figures for the business year 2015/16 published in accordance with IFRS contain non-recurring income in connection with the change in the method of consolidation relative to the previously mentioned companies in the Metal Engineering Division amounting to EUR 137.6 million reported in EBITDA and EUR 74.4 million reported in EBIT (due in both cases to the required fair value measurement and the depreciation of the disclosed hidden reserves). This also includes the depreciation of intangible fixed assets relative to the hidden reserves disclosed when the method of consolidation was changed for voestalpine Tubulars GmbH & Co KG in the fourth quarter of 2015/16. This need to record an impairment adjustment was caused by the negative situation during the year, especially the prices for oil and natural gas, which have fallen significantly. Adjusted for all of these non-recurring effects (clean EBITDA), EBITDA declined slightly in a year-over-year comparison by 1.5% from EUR 1,468.2 million to EUR 1,445.8 million. The adjusted EBITDA margin remained unchanged at 13.1%. As far as earnings are concerned, the Steel Division and the Metal Forming Division both increased the (adjusted) earnings reported in EBITDA from 2014/15 to 2015/16. In both divisions, they are primarily the result of the broadly implemented cost optimization measures, as there was no substantial upward trend in their most important customer segments with the exception of the automotive industry. In the Metal Forming Division, contributions from internationalization activity also had a positive effect on earnings. The main reason for the decline in the operating result (EBITDA) in the Special Steel and Metal Engineering Divisions is the slump in the oil and natural gas sector, which affected both divisions with equal intensity.

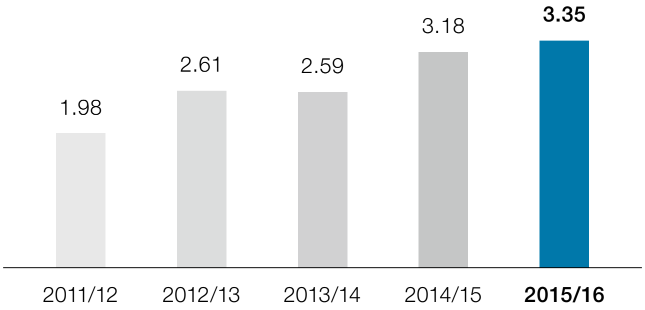
Based on the reported figures (i.e., including the non-recurring effects), at EUR 888.8 million, profit from operations (EBIT) in the business year 2015/16 was slightly higher than in the previous year (EUR 886.2 million), with the EBIT margin going from 7.9% in 2014/15 to 8.0% in 2015/16. After deducting the non-recurring effects, EBIT fell by 3.2% from EUR 841.0 million to EUR 814.4 million, resulting in a virtually stable EBIT margin of 7.4% (previous year: 7.5%).

Profit before tax and profit after tax

Based on the reported figures, profit before tax and profit after tax (net income) rose slightly in the past business year. Profit before tax, published in accordance with IFRS, increased by 1.7% from EUR 739.0 million in the business year 2014/15 to EUR 751.3 million in the business year 2015/16. Excluding non-recurring effects, which totaled EUR 45.2 million in 2014/15 and EUR 74.4 million in 2015/16, profit before tax dropped by 2.5% from EUR 693.8 million to EUR 676.8 million. In a year-to-year comparison, net interest charges fell by 6.6% from EUR 147.2 million to EUR 137.5 million due to the continuing decline of interest

EPS – Earnings per share

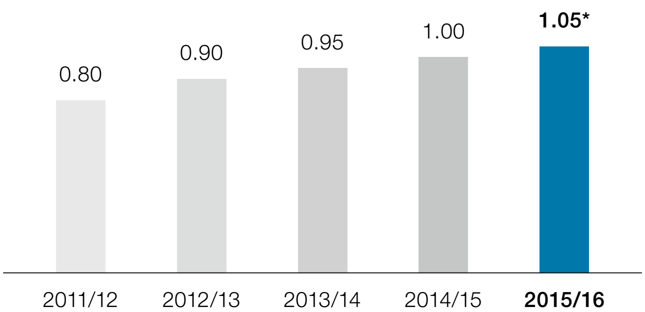
In euros



Dividend per share

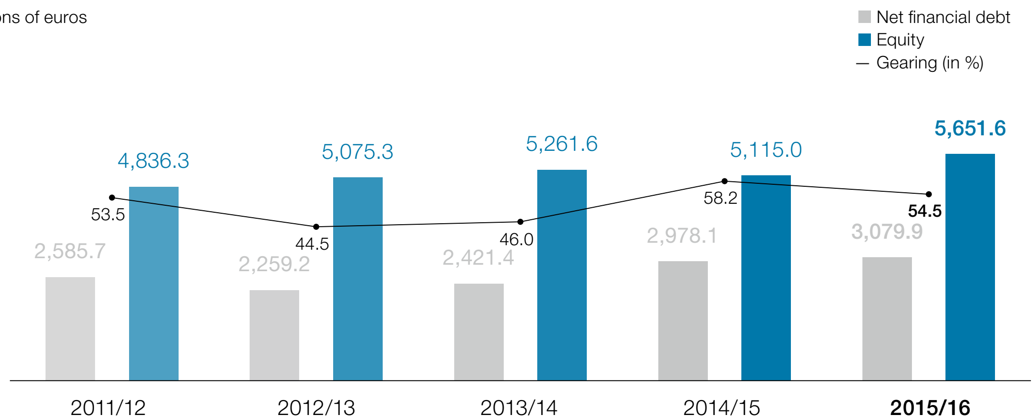
In euros

* As proposed to the Annual General Shareholders' Meeting.



Net financial debt – Equity – Gearing ratio

In millions of euros



rates. Profit after tax (net income) gained 1.2%, going from EUR 595.0 million to EUR 602.1 million. Adjusted for non-recurring effects, profit after tax decreased by 7.7%, going from EUR 552.6 million in 2014/15 to EUR 509.8 million in 2015/16. As most of the non-recurring effects in the previous year and all of the non-recurring effects in the current business year were not subject to taxes on earnings, the unadjusted tax rate was just under 20%. Adjusted for the non-recurring effects, the tax rate rose from 20.4% to 24.7% in a year-to-year comparison.

Proposed dividend

Subject to the approval of the Annual General Shareholders' Meeting of voestalpine AG on July 6, 2016, a dividend of EUR 1.05 per share will be paid to shareholders, an increase of 5.0% compared to the previous year's dividend of EUR 1.00 per share. Based on the earnings per share of EUR 3.35, this recommendation corresponds to a distribution ratio of 31.4%. Based on the average price of the voestalpine share of EUR 32.76 in the business year 2015/16, the dividend yield is 3.2%.

Gearing ratio

Despite record investment of more than EUR 1.3 billion in the business year 2015/16—due to largely finalizing important future-oriented projects—which resulted in a commensurate cash outflow, the gearing ratio (net financial debt in percent of equity) of 58.2% as of March 31, 2015 was reduced to 54.5% as of March 31, 2016. This trend shows that the high-tech/high-quality growth strategy that the voestalpine Group has been pursuing for many years is not mutually exclusive with sound financial management despite its high level of investment. The most significant factor was stable and solid development of earnings that made an increase of the equity base by a healthy 10.5% from EUR 5,115.0 million at the end of the business year 2014/15 to EUR 5,651.6 million as of the end of the business year 2015/16 possible. Despite the massive expansion in investment activity in the past twelve months, net financial debt rose only slightly by 3.4% from EUR 2,978.1 million as of March 31, 2015 to EUR 3,079.9 million as of March 31, 2016.

Cash flow

In the past business year, cash flow from operating activities was boosted substantially by 14.5% from EUR 1,119.9 million to EUR 1,282.2 million. While profit after tax remained virtually unchanged in comparison with the previous year, and net working capital was also maintained at a largely stable level, it was the non-cash items that were most significant in the increase of cash flows from operating activities. As a result of the considerable outflow of capital due to the previously mentioned high level of investment, cash flow from investing activities went up compared with the previous year to EUR −1,230.0 million (previous year: EUR −928.0 million); cash flow from consolidated financing activities came to EUR 261.1 million (previous year: EUR −289.6 million).

Based on the consolidated financial statements 2015/16, the voestalpine Group's key financial performance indicators again show a company that is on a solid footing and is actively tackling future challenges.

Quarterly development of the voestalpine Group

In millions of euros

	1st quarter 2015/16[1]	2nd quarter 2015/16[1]	3rd quarter 2015/16	4th quarter 2015/16	BY 2015/16	BY 2014/15[1]	Change in %
Revenue	3,001.7	2,785.0	2,593.7	2,688.3	11,068.7	11,189.5	–1.1
EBITDA	526.6	365.5	315.2	376.1	1,583.4	1,530.1	3.5
EBITDA margin	17.5%	13.1%	12.2%	14.0%	14.3%	13.7%	
EBIT	368.4	206.7	151.9	161.8	888.8	886.2	0.3
EBIT margin	12.3%	7.4%	5.9%	6.0%	8.0%	7.9%	
Profit before tax (EBT)	328.2	176.4	123.9	122.8	751.3	739.0	1.7
Profit after tax[2]	289.5	131.3	87.7	93.6	602.1	595.0	1.2
Employees (full-time equivalent)	48,653	48,719	47,900	48,367	48,367	47,418	2.0

[1] Business year 2014/15, Q1 2015/16 and Q2 2015/16 retroactively adjusted.
Further details are given in the Notes to the consolidated financial statements 2015/16 under “B. Summary of accounting policies.”
[2] Before deduction of non-controlling interests and interest on hybrid capital.

Quarterly development of the voestalpine Group adjusted

In millions of euros

	1st quarter 2015/16[1]	2nd quarter 2015/16[1]	3rd quarter 2015/16	4th quarter 2015/16	BY 2015/16	BY 2014/15[1]	Change in %
Revenue	3,001.7	2,785.0	2,593.7	2,688.3	11,068.7	11,189.5	–1.1
EBITDA adjusted	389.0	365.5	315.2	376.1	1,445.8	1,468.2	–1.5
EBITDA margin adjusted	13.0%	13.1%	12.2%	14.0%	13.1%	13.1%	
EBIT adjusted	236.9	212.9	158.2	206.4	814.4	841.0	–3.2
EBIT margin adjusted	7.9%	7.6%	6.1%	7.7%	7.4%	7.5%	
Profit before tax (EBT) adjusted	196.7	182.6	130.1	167.4	676.8	693.8	–2.5
Profit after tax[2] adjusted	151.7	138.7	92.3	127.1	509.8	552.6	–7.7
Employees (full-time equivalent)	48,653	48,719	47,900	48,367	48,367	47,418	2.0

[1] Business year 2014/15, Q1 2015/16 and Q2 2015/16 retroactively adjusted.
Further details are given in the Notes to the consolidated financial statements 2015/16 under “B. Summary of accounting policies.”
[2] Before deduction of non-controlling interests and interest on hybrid capital.

Significant events in the course of the year

Capital increase to expand the employee participation plan

On March 9, 2015, the Management Board of voestalpine AG resolved to exercise its authorization to increase the Company's share capital pursuant to Section 4 (2b) of the Articles of Incorporation and increase the share capital of voestalpine AG by around 1.45% by issuing 2.5 million new, no-par value bearer shares. The newly issued shares will ensure expansion and consolidation of the employee participation plan of voestalpine AG. The capital increase was approved by the Supervisory Board on March 26, 2015 and recorded in the Commercial Register on April 25, 2015 and is therefore effective as of this date. With this entry into the Commercial Register, the share capital of voestalpine AG rose to EUR 317,851,287.79 and is divided into 174,949,163 shares.

Changes in the scope of consolidation

Up to March 31, 2015, the companies voestalpine Tubulars GmbH, voestalpine Tubulars GmbH & Co KG, and CNTT Chinese New Turnout Technologies Co., Ltd. were included in the consolidated financial statements of voestalpine AG using the equity method; as the Group obtained control over these companies as of April 1, 2015, with the present consolidated financial statements, full consolidation is being applied.
For detailed information about these changes, please refer to the Notes, Chapter D. Acquisitions and other additions to the scope of consolidated financial statements.

Direct reduction plant in Texas, USA

The construction of the direct reduction plant in Corpus Christi, Texas, USA, is in the final stage. It will produce high quality HBI (hot briquetted iron/sponge iron) and will be the largest and most modern plant of its kind. HBI is created by reducing iron ore pellets (pre-concentrated ore) using natural gas. The use of natural gas, which is more environmentally friendly, instead of coke and state-of-the-art technologies for dust prevention and water treatment make the facility an international environmental benchmark.
The port facility was already completed in the first half of 2015/16. The 300-meter-long loading pier also has two unloading cranes, a ship-loading crane, and a conveyor system for ore and/or pellets and HBI. The (enclosed) pellet storage facility, which is the size of five soccer fields, was also completed on schedule. After the roof of the reduction tower, which is the core piece of the facility, was completed in January 2016, the current focus of activities has been the final installation of electrical systems, electronics, piping, and conveyor technology. The first parts of the facility have already been successfully tested. The new plant is scheduled to be commissioned in the summer of 2016.
In preparation for the launch of operations, a freighter carrying iron ore pellets arrived from Brazil in late April and was unloaded without any

complications. Once operation is fully up and running, around three million tons of pellets will be required to produce two million tons of high-quality HBI annually.
As far as sales are concerned, including voestalpine's own demand of around 800,000 tons annually, around 90% of the HBI production volume has already been reserved. The Austrian steel sites in Linz and Donawitz expect to be supplied with the high-quality pre-material from Texas, USA, beginning in the fall of 2016. From that point on, the new facility and its positive cost effects will make an important contribution to ensure the long-term viability of voestalpine's steel base in Austria.

Closure of voestalpine Arkada Profil

The process of closing voestalpine Arkada Profil, which is headquartered in Yartsevo, Russia, commenced as of the beginning of the 2016 calendar year. Even very rigorous operational and financial restructuring measures were ultimately not able to reestablish long-term prospects for the company. The original objective of this acquisition was to supply the Russian market with premium products in the special sections segment. However, as a result of the negative economic development in 2014 and 2015, there was ultimately no alternative to closure. In the meantime, the sale of machines, equipment, and inventory was successfully completed in the fourth quarter of 2015/16, and business activities were definitively discontinued. The company, which is part of the Tubes & Sections business segment, and its most recent staff of 193 employees generated revenue of EUR 13.1 million in the business year 2014/15.

Corporate Governance Report

The Corporate Governance Report for the business year 2015/16 was published on the voestalpine AG website under the heading "Investors."

- The exact link is:
http://www.voestalpine.com/group/en/investors/corporate-governance

Investments

Investment volume in the voestalpine Group in the past business year reached a new peak, as in 2015/16 a number of major future-oriented projects were either completed or were in the final implementation phase. In a year-to-year comparison, investments in 2015/16 were at EUR 1,310.9 million, 11.3% higher than in 2014/15 (EUR 1,177.8 million). The highest allocation of capital was to the Steel Division due to the construction of the direct reduction plant in Texas (USA), which is about to be commissioned. It is the largest-ever foreign investment made by the Group.

In addition to the investment in Texas, USA (see Chapter "Direct reduction plant in Texas, USA"), the Steel Division carried out a number of important projects during the business year 2015/16 at its production site in Linz, Austria. As a result, its investment expenditure rose compared with the previous year by 22.9% from EUR 570.6 million to EUR 701.1 million. The individual projects comprise both necessary maintenance and investment to optimize the division's technology leadership position as well as its product portfolio.

The focus of maintenance activities was the scheduled major repair of blast furnace 5. The four-and-one-half-month reconditioning process began in mid-June 2015. The blast furnace was put back into operation by the end of October 2015. A major repair of the second of the two smaller blast furnaces (blast furnace 6) is planned for the business year 2016/17. The scope and duration of the repair will be similar to the one just completed in the past business year. As part of the investment project involving secondary metallurgy system 4, a new ladle furnace was put into operation in the fall of 2015 as well as an additional vacuum system. The entire facility has been fully available since January 2016.

Technology expansion at the steel plant in Linz is being finalized with the new continuous casting facility (CC8), for which ground was broken last July. As of the end of the past business year, masonry construction work had been largely completed. Once the new facility is put into operation, which is planned for the fall of 2017, combined with secondary metallurgy system 4, the capacity for vacuum-treated steel will be more than 4.5 million tons or more than 80% of the entire steel production capacity. In the Heavy Plate business segment, the replacement of the entire quarto rolling stand was undertaken between mid-October and mid-November 2015; this was a future-oriented investment, particularly since the new rolling stand was largely developed by voestalpine itself.

In the business year 2015/16, the Special Steel Division increased its investment in a year-to-year comparison by 14.1% from EUR 159.3 million to EUR 181.7 million. In the early part of the business year, an additional electro slag remelting (ESR) system was put into operation at the Hagfors location in Sweden in order to satisfy increasing demand for premium tool steel primarily from Asia. The majority of the division's investment projects, however, were directed toward implementing the Special Steel Division's key strategy of dramatically expanding its service offerings. For example, in the Value-Added Services business segment, the sites in Kattowitz, Poland, Shanghai, China, and Cleveland, Ohio, USA, were substantially expanded; the investment focus was on expansion of heat treatment and processing capacity.

An additional focus was the roll-out of the high-tech Eifeler coating technology, with new coating centers being built in both Cleveland and Pune, India. In Singapore, a new branch was opened in the past business year that will focus on the oil and natural gas industries. The establishment of a center for additive manufacturing of components (3-D printing) in Düsseldorf was new territory from a technology standpoint. While the concept of this technology has already become familiar, the technology itself is still at the very beginning of its broad-based market entry phase. An important pillar is the division's metallurgical expertise in the production of high-quality powdered metal.

The investment expenditure of the Metal Engineering Division declined in a year-to-year comparison by 5.8% from EUR 269.0 million in the previous year to EUR 253.3 million. All of the division's recent major investment projects were either already successfully completed in the past business year or are currently in the run-up phase. For example, in January 2016, the new walking beam furnace, the core piece of the rail rolling mill, was already put into operation after a construction period of only 19 months. This high-tech facility, which is unique worldwide, makes it possible to not only considerably lower energy consumption but to produce products with narrower profile tolerances. In March 2016, a new manufacturing facility was opened in Suzhou, China, which will offer high-quality wire solutions for sophisticated customer applications; this plant has two drawing units for cold extrusion wire.

The division's current most significant project, both as far as investment volume and strategic importance are concerned, is the construction of a new, technologically extremely sophisticated wire rolling mill (including walking beam furnace) in Donawitz, Austria. The facility, which is currently in the run-up phase, will replace the current wire rolling mill, which was built in the 1980s, as soon as it has successfully completed the approval process. In the Seamless Tubes business segment, considerable investments were undertaken to expand and improve the quality of the product portfolio.

Investment activity in the Metal Forming Division in the business year 2015/16 showed a slight downward trend, with a decline by 1.4% from EUR 169.8 million to EUR 167.5 million. Investments, which were part of the comprehensive expansion and internationalization strategy, were focused primarily on the press-hardened steel segment ("phs-ultraform"), which is based on new technology. In the fall of 2015, the first such manufacturing facility outside of Europe was opened in Shenyang, China. In Cartersville, Georgia, USA, a facility of this type is currently in the start-up phase. This means that the Automotive Body Parts business segment has a total of eight "phs" lines for indirect hot forming of press-hardened steel in Europe, the USA, and China. In the past business year, direct hot forming of press-hardened steel based on "phs" technology also saw another future-oriented milestone with the construction of a pilot facility in Schwäbisch Gmünd, Germany. This first "phs" line for the direct process will begin operations in July 2016. On July 2, 2015, ground was broken for the second plant of voestalpine Europlatinen GmbH in Linz, Austria, as the existing plant has been close to reaching its capacity limits for some time. Construction took less than one year so that the new plant was able to recently begin operations earlier than scheduled. It produces laser-welded blanks that are used in the production of lightweight body components by the automotive industry.

Acquisitions

In the business year 2015/16, the voestalpine Group made a total of three acquisitions. Two of them were undertaken by the Special Steel Division in order to increase customer-specific value creation. With the acquisition of the companies Advanced Tooling Tek (ATT) in Shanghai, China, and the Sermetal Group, which is headquartered in Barcelona, Spain, the division further expanded its market leadership as a provider of special steel products for toolmaking and mold construction. The new sales and service centers will provide not only local production of special steel, but also the processing required by customers (sawing, milling, heat treatment). The main customers of these two companies are the automotive and electronics industries. With ATT, which has around 100 employees and which generated revenue of EUR 16 million in 2015, the Special Steel Division has taken over its long-standing local sales partner, thus taking its next step toward expansion on the Chinese market. Sermetal, a market leader on the Iberian Peninsula in the plastic mold steel segment, achieved revenue of around EUR 27 million in 2015 with its staff of 60.

With the acquisition of the US company Wickeder Steel Company, headquartered in Pleasant Prairie, Wisconsin, the Metal Forming Division has expanded its market presence in the USA in the segment of hardened special steel strip for high-quality applications (e.g., band saw blades for the food industry). The company specializes in the heat treatment and hardening of carbon steel for the production of saws, hand tools, and flap valves. The enterprise has a staff of 50 employees and generated revenue of around EUR 12 million in 2015.

Employees

As of March 31, 2016, the voestalpine Group had 45,046 employees (excl. apprentices and temporary employees). This corresponds to an increase of 1,882 persons (+4.4%) compared to the headcount on March 31, 2015. In addition, there are 1,377 apprentices and 3,389 leased employees, which adds up to a total of 48,367 FTEs. This represents a rise in headcount of 2.0% (or 949 FTEs) compared to the previous year.
The number of temporary employees rose in a year-to-year comparison by 12.6% (from 3,879 to 3,389 FTEs).
Due to the increasing internationalization of the Group in recent years, 51.7% of voestalpine's employees (23,286 persons) are now employed at international Group sites, i.e., outside of Austria in Europe and overseas, while 21,760 employees are working at Group companies in Austria.
As of the end of the business year, the voestalpine Group was training 1,377 apprentices (62.4% of whom were being trained at Austrian companies and 37.6% at international sites). Compared to the previous year, the number of apprentices has decreased by 30 persons or 2.2%.

Employee participation plan

Currently, all employees in Austria and Group employees in Great Britain, Germany, the Netherlands, Poland, Belgium, the Czech Republic, and Italy are integrated into the employee participation plan, which has been gradually expanded ever since its launch in 2001. The circle of employees from the Group's international locations participating in this model was again widened in the business year 2015/16.

As of March 31, 2016, roughly 24,100 employees have a stake in voestalpine AG through the voestalpine Mitarbeiterbeteiligung Privatstiftung; they hold about 23.3 million shares, which represent 13.4% of the company's share capital due to the general bundling of voting rights (previous year: 12.5% Therefore, the voestalpine Mitarbeiterbeteiligung Privatstiftung is one of the largest shareholders of voestalpine AG. About 1.9 million "private shares" owned by current and former employees (this corresponds to an additional 1.1% of the voting shares) are also managed by the voestalpine Mitarbeiterbeteiligung Privatstiftung. Thus, as of March 31, 2016, 14.5% of voestalpine AG's share capital (previous year: 13.6%) is owned by employees.

The Stahlstiftung (Steel Foundation) in Austria

The Stahlstiftung, which was established in 1987, provides former employees of voestalpine from almost all of the Austrian Group companies as well as employees from a number of companies outside the Group with the opportunity to take up to four years to complete training and continuing education courses to upgrade their skills or to start a new career path. This institution significantly mitigates the social consequences of lay-offs and the participants receive the best possible assistance in their search for a new job. In the business year 2015/16, more than 83% of the participants who were looking for work were able to find a new job with the help of the Stahlstiftung despite the difficult situation on the Austrian labor market.

As of the end of the business year, a total of 462 persons were being assisted by the Stahlstiftung, of whom 51.1% were participants from companies not belonging to the voestalpine Group. The total number of Stahlstiftung active members in the business year 2015/16 was 784, 7.4% above the previous year's figure (730 persons).

Focus of HR activities

Fairs

The voestalpine Group was represented at a number of career fairs in the past business year. The focus was on recruiting graduates of technical and scientific programs. voestalpine staff from technology fields and HR presented the Group at national student fairs as an attractive employer for entry-level employees. In accordance with the Group's globalization strategy, voestalpine's presence at career fairs, especially international ones, was expanded; furthermore, voestalpine was a sponsor at International Student's Day of Metallurgy in Aachen, Germany, in 2015. More than 200 students from 15 European universities took part in this three-day event. voestalpine also took advantage of the German-Chinese career fair Chinese Talent Days in Cologne and the GT Career Fair in Atlanta to present itself to Asian and American young talent as an international technology and capital goods Group with attractive career opportunities. At the same time, the international roll-out of the voestalpine job application management system continued, and, besides Austria and Germany, Sweden, the Netherlands, England, the USA and Canada, India, Brazil, South Africa, and Australia are now also using the system. A number of other countries will shortly be implementing this Group-wide instrument.

Awards for being an attractive employer

For the sixth consecutive time, voestalpine AG won the Austrian BEST RECRUITER prize in the category iron/metal industry and received the "Golden Seal" award. More than 500 Austrian companies were tested according to various criteria, such as career website, social media, online job ads, and how job applications are handled. In the trendence Graduate Barometer 2016, the largest employer study among Austrian students, voestalpine was ranked number 1 (2015: number 4) among budding engineers and computer scientists. In the area of business administration, the Group was ranked at an excellent number 6 (2015: number 7). In this study, more than 7,700 Austrian students majoring in business administration, IT, and engineering at 32 institutions of higher learning were questioned about their career plans and their employers of choice.

Apprentices and young skilled workers

At the WorldSkills 2015 competition in Sao Paolo, Brazil, the world championship of young skilled workers, the three participants from the voestalpine Steel Divison came home without one of the top prizes, however, because of their outstanding performance, they received a "Medaillon for Excellence."

The company invests about EUR 70,000 in the comprehensive three- or four-year training per apprentice. In order to communicate with this important target group even more efficiently and directly than before, the voestalpine website for apprentices was redesigned, and social media activities on Facebook, YouTube, Twitter, LinkedIn, Watchado, and Instagram were intensified.

In 2015, the Group company Böhler Edelstahl GmbH received the State prize "Best training companies – Fit for Future" as one of the three best training companies in Austria in the category "large-scale enterprises."

In October 2015, around 380 apprentices from Austria and Germany came together at the third voestalpine Group Apprentice Day in Linz, which provided the skilled workers of tomorrow and their trainers with a diverse program that enabled them to get to know each other and the company better.

The video contest for apprentices, which was conducted in the fall of 2014, was nominated for the

German Award for Online Communication in the category "Recruiting Campaign and Employer Branding" and achieved a placement among the top five.

The impressive number of young people who complete their apprenticeships confirms that the training costs are a worthwhile investment: 96.6% of the apprentices who took their final examination in the last business year passed. Of the Austrian graduates, 67.6% passed their final examination with the grade "good" or "excellent." For the apprenticeship year beginning in 2016/17, around 400 new apprenticeship positions are available in Austria and Germany alone. Currently, training for 50 vocational occupations is being offered at 39 sites. In the last business year, many schoolchildren and their parents took advantage of the "open house days" at a number of sites in order to personally gather information about training opportunities.

Development of executives

In the business year 2015/16, 228 participants from 31 countries took part in various training courses for executives (value:program) organized by the Group. The percentage of women was 15.4%. The value:program provides target group-specific training and continuing education programs for all management levels from junior management to mid-management and senior and top management. In addition to internal issues, focal points include topics such as strategy, change management, and leadership. In the business year 2015/16 alone, three new development programs were created. The requirements are met with a combination of face-to-face training and online course units.

Other development programs

Specific development programs were created or refined at the Group level for selected functions and regions to enhance competency as needed; some examples are the Purchasing Power Academy, the HR Academy, and the China Young Professional Training Program.

The further development portfolio for employees contains numerous other programs and training offerings at the divisional and business unit level.

Educational collaborations with universities

Each year, voestalpine enables students from Emory University (Atlanta, Georgia/USA) to participate in a ten-week internship. In exchange, students of the Johannes Kepler University in Linz, Austria, receive a one-year scholarship to Emory University.

On another educational track, students in the international MBA program "ACT – Austria, Canada, Taiwan," a joint study program of the Johannes Kepler University in Linz, the University of Victoria, Canada, and the National Sun Yat-sen University in Kaohsiung in Taiwan, take part in project work lasting several weeks at the Group's Linz location.

There are numerous ongoing collaboration projects with the University of Mining and Metallurgy in Leoben, Austria. They range from sponsoring commitments to create enthusiasm in young people about studying at the University of Mining and Metallurgy to voestalpine talks, a cooperative event with all student representatives, and participation in the student fair "teconomy." Moreover, numerous voestalpine companies provide students with the opportunity to undertake internships or work on scientific papers in collaboration with the company. Currently, university students are working on around 115 theses and 90 dissertations in the voestalpine Group.

Raw materials

In the business year 2015/16, the price trend for the raw materials that are of primary importance for steel production was largely recessive, albeit not quite intensely as had been the case in the business year 2014/15, with the exception of prices for scrap and alloys. Iron ore, the most important raw material as far as volume is concerned, experienced a dramatic price decline in 2014 that was triggered by an extreme expansion of capacity by mine operators, who anticipated far too optimistic growth prospects in the global—and especially the Chinese—steel industry when making their projections.

The downtrend in the 2015 calendar year is, however, also the result of the fact that global steel production is down for the first time in many years. Two years ago, the price on the spot market for a ton of fine ore (CFR China) had still been at around USD 130, while in December 2015 it was under USD 40. Although the market dominance in the mining sector is concentrated among only a few companies—more so than in virtually any other sector—the price of iron ore fell by roughly 70% between January 2014 and December 2015. The major mining companies in Australia and Brazil reacted to this with massive cost-cutting programs and this—together with changes in currency parities and the drastic drop in the oil price—contributed to the reduction of the cost basis relating to mining and transport of iron ore. Operators of smaller and less profitable mines could not withstand the cost pressure and were forced to close their mines, at least temporarily. Notwithstanding these developments, in the first calendar quarter of 2016, the iron ore markets remained highly volatile. A combination of factors—a weakening of the US dollar, (assumed) improved growth prospects for the Chinese steel industry, and at the same time, unusually low inventories of steel—resulted in an increase of the iron ore price during the quarter by around 50% so that by the end of March 2016, it was at around USD 60, about the same level as at the beginning of the business year 2015/16.

In contrast to iron ore, the price decline of coking coal had begun by the early part of the 2011 calendar year and continued until the end of the business year 2013/14. The most significant factors were the additional supply of coal, especially from Mongolia, and the fact that there have not been any major production losses since the flooding in the coal mining areas in Australia in early 2011. After a phase of stability in the business year 2014/15, during which the spot market price for a ton of coking coal (FOB Australia) remained at around USD 110, in the past business year, it again weakened, fluctuating within the range of USD 80 to 90 per ton. The decline in the business year 2015/16 is due to the fact that China has largely become self-sufficient as far as coking coal is concerned and has drastically reduced imports. In this environment, it has become impossible for some US manufacturers to remain competitive so that, as a result, capacity has been removed from the market.

Price deterioration of coke has been similar both as far as volume is concerned and the time trajectory. In early 2011, the price of a ton of coke (FOB China) was still at USD 500. In the subsequent year, not only did the coke price drop dramatically, but also the difference to the price of coking coal. As a result, by the end of the last business year, the price of a ton of coke had plummeted to USD 115.

The price of scrap fell to a similar extent as iron ore, although the decline began somewhat later; by the summer and fall of 2015, it had plunged to EUR 165 (type E3, Germany) per ton, from USD 240 per ton at the beginning of the business year.
Procurement costs for the most important alloys, which are a significant cost factor particularly in the Special Steel Division, also went down substantially in the business year 2015/16. Declines in price, especially for molybdenum, vanadium, and chromium, have ranged between 20% and 30% within the course of a single year. The price of nickel, the cost of which is the most expensive item in the alloy portfolio, has dropped in the same period of time by almost one third.

Research and development

With research and development expenditure amounting to EUR 131.8 million in the business year 2015/16, the voestalpine Group continues to be the most research-intensive Austrian company. The focus in the past business year was on the industries with the largest growth potential, namely mobility and energy, and on sustainability and environmental compatibility. This figure represents a rise in R&D expenditures of EUR 5.1 million, or 4.0%, in comparison to the previous business year (EUR 126.7 million); this new record figure once again underscores the significance of this sector for the future of the Group as a whole. In a year-over-year comparison, the research ratio (proportion of R&D expenditures in relation to revenue) rose from 1.1% to 1.2%; the R&D coefficient (funds measured in terms of value creation) went down from 2.8% to 2.7%.

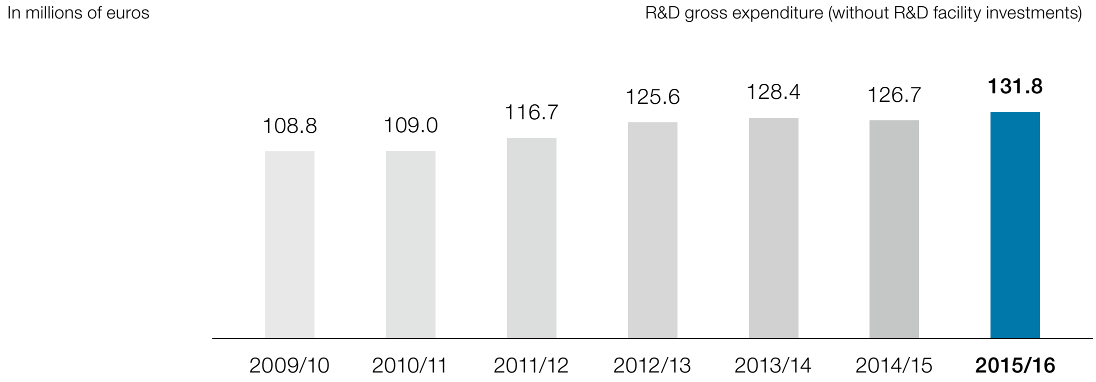
Modern high-tech steel products, such as those manufactured by the voestalpine Group, are based on intensive application-oriented research and the close connection and collaboration between science and business. Long-term R&D partnerships with both university and non-university research institutions are key for modern innovation and are therefore an essential component of the voestalpine business model. The voestalpine Group is cooperating on an ongoing basis with around 80 scientific partners worldwide. Of course a number of important partners are located in Austria, primarily the Johannes Kepler University in Linz, the University of Mining and Metallurgy in Leoben, and K1-MET GmbH, which is one of voestalpine's more recent partners.

The main fields of research of the competence center K1-MET are new steel manufacturing technologies, optimization of existing product processes, raw materials efficiency in metallurgy, and the minimization of energy consumption and emissions. The fields of research, in which voestalpine is collaborating intensively and successfully with the Johannes Kepler University Linz comprise the broad area of mechatronics, various issues connected to process modeling, particularly in the areas of continuous casting and rolling, interface chemistry, and surface and interface analytics. The focus of the decades-long collaboration with the University of Mining and Metallurgy in Leoben is process development and application-oriented basic research. voestalpine is also supporting two relatively newly endowed professorships at the Technical University Graz, one on the subject of data science, which focuses on Big Data management and integration oriented toward smart production applications, while the other is on the subject of aerospace, with a focus on innovative materials and manufacturing technologies.

The voestalpine Steel Research Prize, which was endowed for the first time in 2015 in collaboration with the University of Mining and Metallurgy in Leoben and ASMET, was awarded to a voestalpine employee, Ronald Schnitzer, for his excellent dissertation. He also applied for the position of Chair for Steel Design endowed by voestalpine at the University of Mining and Metallurgy in Leoben and received the appointment. The voestalpine Steel Research Prize is awarded to young researchers from academia or business for outstanding research work relative to metallurgy, materials science, processing technology, and their application.

Mobility is not only a core growth field but also a central driver of innovation within the Group. Based on its combination of materials and processing expertise, the breadth of which is unique, the voestalpine Group, with its high-quality products, is seen as a premium partner by exacting customers in the mobility segment. In the railway infrastructure segment, it is the global market and technology leader in all high-tech applications.

Research expenditure for the voestalpine Group



In order to not only maintain this position in the future but to expand it, innovation and the collaboration with external research partners is absolutely essential. An example is the European research initiative Shift2Rail, where cooperation is being stepped up. In preparation for this initiative, leading Austrian companies in the area of railway technology have come together and formed the Virtual Vehicle Austria Consortium+. In late 2015, the consortium was selected to participate in the research project Shift2Rail, the first and only European initiative for focused research and development of market-oriented railway solutions, with the objective of integrating new technologies into innovative products for rail transport more quickly than before.

The field of aerospace is another important and research-intensive market segment of the future for the voestalpine Group. Engine components, engine mounts, fuselage sections, and landing gear of aircraft have to withstand enormous stresses. Additionally, manufacturers seek to reduce the empty weight of the aircraft of each new airplane model for both ecological and economic reasons. Only selected materials can meet these requirements. Therefore, companies of the Special Steel Division are using increasingly sophisticated titanium alloys and new solutions for high-alloy steel and nickel-based alloys and are developing and optimizing the forging processes that are necessary to achieve this.

In the automotive sector, where requirements for lightweight construction are becoming more and more stringent, the future requires an optimum mix of various metallic materials. While aluminum has an advantage vis-à-vis steel purely on the basis of weight, decreased formability, higher cost, and higher energy consumption in primary production represent significant disadvantages. Therefore, the Metal Forming Division, which is focused on automotive components, is pursuing a differentiated approach: in the hang-on area of automotive production, i.e., where doors and hatches are attached, aluminum is increasingly used, especially by premium manufacturers, while in the structural area, steel clearly offers better prerequisites. Increasingly stronger AHSS-HD steel (advanced high strength steel with improved forming qualities) and phs-ultraform®, both developed by voestalpine, are being used here. Today, the Metal Forming Division has become a technological pioneer in the complex area of aluminum forming. At one of its German sites, the very sophisticated process of cold forming aluminum has become a standard technique.

Electrical steel strip with special coating that can be processed into electrical steel strip packages was developed in recent years in a joint Group project by the Steel and Metal Forming Divisions. The complex and technologically very sophisticated component for highly efficient electric motors has already been introduced on the market. This enables high performance density of motors and generators, exactly what will be required in the future for the comprehensive optimization in the field of energy efficiency.

Extracting oil and gas from great depths and aggressive environments requires high quality pipes. With this perspective in mind, the Metal Engineering Division is constantly working on new ultra-high-strength and sour gas-resistant steel for seamless tubes. Furthermore, threads with ever greater torque and improved density are being developed and increasingly also threads that do not need coatings that harm the environment.

Offshore operations of the oil and natural gas industries, such as platforms, jack-up rigs, and underwater pipeline systems are exposed to low temperatures, high pressure and a very corrosive environment. This is precisely where voestalpine high-strength heavy plate is used. In order to connect individual parts, special welding consumables are needed to enable connections that hold under the most extreme conditions. In a cross-divisional project involving the Steel and the Metal Engineering Divisions, knowledge and experience are shared with regard to materials development and processing in order to provide unique added value for customers—coordinated steel and welding expertise from a one-stop provider. With the assistance of voestalpine Grobblech GmbH, voestalpine Böhler Welding Group has been developing welding consumables that fully satisfy the constantly growing requirements with respect to higher strength and increasingly extreme temperature stress.

The important topic of further development of steel production processes toward even greater efficiency, flexibility, and cost optimization is increasingly represented by the concept of Industry 4.0. This means that seeing the production of steel and finished steel products to an ever greater extent as a complete, controlled process across the entire value chain, where the individual process steps are connected, combined, and coordinated with one another to the highest degree possible. Process simulations of metallurgical process engineering and forming technology as well as the development of model-based systems management have created the foundation for this. Building on that, the new Group-wide Industry 4.0 platform was defined during this year's "Synergy Platform," the Group-wide researcher conference, in Linz. Its objective is to make all of voestalpine's activities on the topic of smart production evident for all potential users within the Group, to make connections, to identify synergies, to learn from one another, and ultimately to broadly implement these ideas in advance of the competition in accordance with our motto "one step ahead."

Environment

Environmental expenditures

In the business year 2015/16, environmental data management was significantly expanded. In addition to the previously reported emission-intensive Austrian Group sites, a number of other, primarily international, production companies and their facilities and systems were included for the first time. Environmental investment therefore increased compared with the previous year from EUR 43 million to EUR 55 million. There was also a slight increase in investment relative to previously included Austrian sites of EUR 5 million to EUR 47 million. Due to the expansion of the group of companies covered in the reporting, the ongoing costs of operation for environmental systems also rose from EUR 222 million to EUR 237 million, with the Austrian sites remaining at the previous year's high level.

Environmental projects: highlights

Now that the Austrian Energy Efficiency Act, EEA *(Bundes-Energieeffizienzgesetz, EEffG)* came into effect at the beginning of 2016, utility companies must substantiate their energy savings by committing to appropriate efficiency measures at the consumer end. The voestalpine Group has complied with these requirements at all of its Austrian Group locations fully and on time. Simplified administrative procedures in connection with the implementation of the law will, however, be taken into consideration in the amendment that is currently under discussion.

The EU Industrial Emissions Directive, which is currently being implemented, affects a number of Group locations. For example, IPCC (Integrated Pollution Prevention and Control) facilities are subject to periodic environmental inspections. In the inspections carried out thus far of the facilities in question, no defects of a material nature were found. Furthermore, the directive regulates the prevailing state of the art of processes, facilities, and methods of operation, which is periodically defined in the BREFs (Best Reference Documents) and/or BAT (Best Available Techniques) conclusions. Today, voestalpine already meets the new standards that will not apply until the 2017 calendar year so that no material adaptations will be necessary.

A central focal point relating to sustainability, which will be significant in the long term, is a number of activities across the entire Group with regard to Life Cycle Assessment (LCA). This is understood as the comprehensive ecological product and process assessment of materials over their entire life cycle, from production through use to recycling. In addition to participation in the concrete definition of measurable and practice-oriented regulations, norms, and standards, both at the European and the international level, currently, a number of concrete LCA projects are being carried out with selected customers, for example, from the automotive and construction industries.

In the Steel Division, numerous additional systems were optimized in the past business year as part of a sophisticated environmental program to

further lower emissions (for example, by using fewer reducing agents) and to further improve energy efficiency (including sharply focused measures in the areas of transport and logistics).
In order to consistently implement the Group's high ecological standards outside of Europe as well, an environmental management system in accordance with ISO 14001 is currently being established at the new location in Corpus Christi, Texas, USA. The new direct reduction plant is considered an environmental benchmark as far as the facility's technology is concerned. In addition to the use of the best available technologies to minimize air and water emissions, a briquetting plant processes filter dust and any ferrous production residue and recycles it back into the process (zero waste production with maximum raw materials efficiency).

Numerous environmental measures with similar objectives were also implemented in other divisions. For example, besides ongoing process optimization, the Special Steel Division completed a number of projects to improve energy efficiency (for instance, to curtail natural gas consumption) and to reduce air emissions, such as the new combustion facility at the site in Kapfenberg, Austria; a new dust removal system was installed at the electric-furnace steel plant in Wetzlar, Germany.

During its planning process for the new wire rolling mill in Donawitz, Austria, the Metal Engineering Division took comprehensive measures to lower energy consumption. For example, a new cooling system for the electrical buildings and transformer compartments was installed for the new rolling mill, with an even more energy-efficient combination of cooling water, a free-cooling system, and compression cooling. At the steel production plant in Donawitz, there will be substantial energy savings due to the newly developed cooling system for the walking beam furnace in the future; an integrated heat exchanger concept has been implemented that will also heat workshops and office space by way of a secondary circuit.

In the Metal Forming Division, three briquetting presses were installed at the site in the Austrian town of Kematen; they will make it possible to recycle the grinding dust, which is a valuable raw material due to its high iron content.

Current environmental topics

Global climate protection

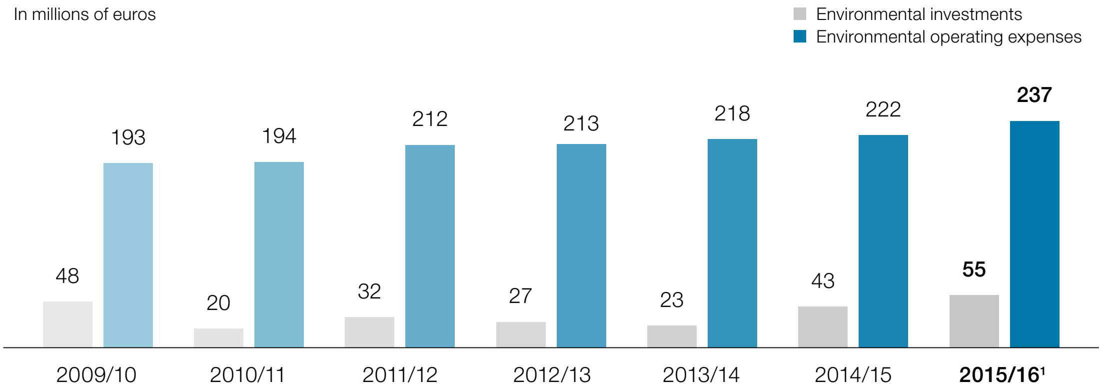
In late 2015 in Paris, the international community agreed on a new UN global climate accord that will replace the previous Kyoto Protocol. A final assessment, however, to what degree this will actually be the case cannot be made as yet. This was an initial step toward the creation of a global climate protection framework that includes all emitters of greenhouse gases; whether or not, however, this will be an agreement that will be binding and comparable for all nations with fair competitive conditions for all market participants, as—not only—European industry hopes, is still uncertain because the most significant pillars of the agreement have not yet been concretely defined and the accord itself has not yet been ratified.

European level

In the European Union, the process to ratify the global climate accord (which must take place both in accordance with the laws of the European

Union and at the national level of the member states) began formally in March 2016. The EU's commitments related to climate change are identical with the well-known "2030 goals" (CO_2 reduction by 40% compared with 1990).
The framework strategy for the concrete implementation of this ambitious program is the European Energy Union, which will connect and coordinate the main aspects of energy, climate, competition, and innovation policies. The EU Commission is planning to submit concrete recommendations for the legal implementation of this package by the spring of 2017.
The commission's first draft for the planned EU emissions trading system for the trading period 2021 to 2030 has been available since the summer of 2015. From voestalpine's perspective, however, the draft is problematic insofar as it stipulates yet another cutback of the overall number of certificates as well as another substantial reduction of the benchmark figures for the free allocation of certificates. Broadly based political negotiations regarding reform and the position of Austria in the EU Council are currently taking place. voestalpine's view is unchanged that the key demands of 100% free allocation for the best performers based on real production benchmark figures, which are technically realistic, as well as adequate protection measures against carbon leakage be taken into consideration.

Environmental expenditures



[1] In the business year 2015/16, in addition to the emission-intensive Austrian Group sites, a number of other, primarily international, production companies was included. Based on the previously included Austrian sites, environmental investment rose by EUR 5 million from EUR 43 million in 2014/15 to EUR 47 million in 2015/16.

Report on company risk exposure

Risk management, as it has been understood and practiced in the voestalpine Group, serves to ensure both the continued long-term existence of the Group and an increase in its value, thus representing a key factor in the success of the Group as a whole.

Since the business year 2000/01, the voestalpine Group has had a comprehensive risk management system in place that was established based on a general, Group-wide policy; this policy has been updated and expanded on an ongoing basis.

In accordance with the Austrian Company Law Amendment Act of 2008 *(Unternehmensrechts-Änderungsgesetz)* and the associated increased importance of an internal control system (ICS) and a risk management system, an Audit Committee has been set up at voestalpine AG, which addresses questions related to risk management and the internal control system (ICS) on an ongoing basis as well as the monitoring thereof. Both the risk management and the internal control systems are integral components of the existing management systems within the voestalpine Group. The Internal Audit department independently monitors operational and business processes and the ICS and, as an independent, in-house department, has full discretion when reporting and assessing audit results.

The systematic risk management process assists management in recognizing potential risks early on and initiating appropriate action to avert or prevent dangers. As is proper in value-oriented corporate management, risk management is an integral part of the business processes; it covers both the strategic and the operational levels and is therefore a major element in the sustainable success of the Group.

Strategic risk management serves to evaluate and safeguard strategic planning for the future. Strategies are reviewed to ensure conformity with the Group's system of objectives in order to ensure value-adding growth by way of an optimum allocation of resources.

Operational risk management is based on a revolving procedure ("identify and analyze, assess, manage, document, and monitor") that is run at least once a year uniformly across the entire Group. The evaluation of identified risks is implemented using an evaluation matrix comprising nine fields that assesses possible losses and the probability of occurrence. The main risks being documented are operational, environmental, market, procurement, technological, financial, compliance, and IT risks. This process is aided by a special web-based IT system.

The preventive measures for the main risk areas presented in last year's Annual Report are still valid:

■ Availability of raw materials

In order to ensure the supply of the required quantity and quality of raw materials and energy, the voestalpine Group has for some years maintained an appropriately diversified procurement strategy that is required due to the increased risks encountered in the recent past (mine closures, capacity adjustments, uncertainties associated with the energy transition or energy paradigm shift). Long-term relationships with suppliers, the expansion of the Group's supplier portfolio, and the development of its self-sufficiency are the core elements of this strategy, which is becoming increasingly important in view of the trend toward higher volatility on the raw materials and energy markets, and will continue to determine the company's actions. (For more details, please refer to the "Raw Materials" chapter of this Annual Report).

Guidelines for hedging raw materials price risk

An internal guideline defines objectives, principles, and responsibilities, in addition to methodology, processes, and decision-making processes, for how raw materials risks are handled. Based on the acquired information and taking the individual distinctive characteristics of each raw material into consideration, price risks for the raw materials are hedged by executing delivery contracts containing fixed price agreements or by utilizing derivative financial instruments. Financial derivatives are primarily deployed to hedge fixed price agreements on the sales side.

CO_2 issues

Risks associated with CO_2 are covered separately in the "Environment" chapter of this Annual Report.

Failure of IT systems

At the majority of the Group's sites, business and production processes, which are largely based on complex IT systems, are serviced by voestalpine group-IT GmbH, a company that specializes in IT and that is wholly owned by the Group holding company voestalpine AG. Due to the importance of IT security and in order to minimize possible IT breakdown and security risks, minimum security standards for IT have been developed. These minimum standards are regularly revised and adapted to new circumstances; compliance with these standards is reviewed annually by way of an audit. In order to reduce the risk of unauthorized access to IT systems and applications to the greatest possible extent, additional periodic penetration tests are carried out. Additionally, in the past business year, an online campaign was again conducted to raise employees' awareness with regard to issues relating to IT security.

Failure of production facilities

In order to minimize the risk of breakdowns of critical facilities, ongoing targeted and comprehensive investments have been made in the technical optimization of sensitive units. Consistent preventive maintenance, risk-oriented storage of spare parts, and appropriate employee training are additional measures that are being taken.

Knowledge management

In order to sustainably safeguard knowledge and especially to prevent the loss of know-how; complex, extensive projects have already been initiated and are consistently maintained. Available knowledge is permanently documented on an ongoing basis, while new findings from key projects as well as lessons learned as the result of unplanned events are incorporated accordingly. Detailed process documentation that is effectively supported by IT also contributes to secure knowledge management.

Risks in the financial sector

Financial risk management is organized centrally with respect to policy-making powers, strategy determination, and target definition. The existing rules and regulations include targets, principles, tasks, and responsibilities for both the Group Treasury and the financial department of each Group company. Financial risks are continuously monitored and—where this is feasible—hedged. In particular, the strategy aims to use natural hedges and to reduce fluctuations in cash flow and income. Market risks are largely secured through the use of derivative financial instruments that are used exclusively in connection with an underlying transaction.

Financing risks are hedged using the following measures:

Liquidity risk

Liquidity risks generally consist of a company being potentially unable to raise the funds necessary to meet its financial obligations. Existing liquidity reserves enable the company to meet its obligations within the prescribed period. The primary instrument for managing liquidity risk is a precise financial plan drawn up quarterly on a revolving basis. Required financing and bank credit lines are determined by the central Group Treasury based on the consolidated operating results.

Credit risk

Credit risk refers to financial losses that may occur through non-fulfillment of contractual obligations by individual business partners. The credit risk of the underlying transactions is minimized to a large degree through credit insurance and bankable securities (guarantees, letters of credit). The default risk for the Group's own remaining risk is managed by way of defined processes of credit assessment, risk evaluation, risk classification, and credit monitoring. As of March 31, 2016, 78% of voestalpine's trade receivables were covered by credit insurance. Counterparty credit risk in financial contracts is managed by way of daily monitoring of ratings and any changes in the CDS levels (credit default swap) of the Group's counterparties.

Currency risk

The primary objective of foreign currency risk management is to create a natural hedge (cross-currency netting) within the Group by bundling cash flows. The Group implements hedges centrally by means of derivative hedging instruments through the Group Treasury. voestalpine AG hedges budgeted (net) foreign currency payment flows for the next twelve months. Longer-term hedging is only carried out for contracted projects. The hedging ratios are between 50% and 100% of the budgeted payment flows for the next twelve months.

Interest rate risk

voestalpine AG conducts the interest rate risk assessment centrally for the entire Group. This assessment specifically manages cash flow risk (the risk that interest expenses or interest income will undergo an adverse change). As of the reporting date of March 31, 2016, a hike of the interest rate by one percentage point will result in an increase of the net interest expense by EUR 8.6 million in the next business year. This is, however, an assessment of risk potential on the reporting date, and it can be subject to significant fluctuations over time. As voestalpine AG maintains a liquidity reserve to ensure availability of liquidity, it has interest-bearing investments. In order to avoid interest rate risk stemming from these investments, interest rate exposure on the asset side—expressed by way of the modified duration—is coupled with interest rate exposure on the liability side (asset-liability management).

■ Price risk

voestalpine AG also assesses price risk, primarily using scenario analyses to quantify interest and currency risk.

■ Compliance risks

Compliance violations, e.g., antitrust and corruption violations, represent a significant risk and can have adverse effects, both with respect to financial damages and damage to the Group's reputation. We address these risks, particularly antitrust and corruption violations, by way of our compliance management system, but they cannot be entirely excluded. Regarding antitrust proceedings and allegations, see Chapter 19 in the Notes.

■ Uncertainties stemming from legislation

Goodwill amortization under Austrian tax law

With its decision of January 30, 2014, the (Austrian) Higher Administrative Court *(Verwaltungsgerichtshof)* directed a request for a preliminary ruling to the Higher Administrative Court of the European Court of Justice (EUGH – VwGH) 30/1/2014, EU 2014/0001-1 (2013/15/0186). Among other issues, this request contained the question of whether, when acquiring a domestic equity interest, goodwill amortization constitutes State aid within the framework of group taxation in Austria as defined by Art. 107 (1) 1 of the Treaty on the Functioning of the European Union (TFEU). Pursuant to the decision of the ECJ dated October 6, 2015, C-66/14, the question of whether this constitutes State aid is not connected in any way to the subject of the original dispute and is therefore inadmissible. Subsequently, with its ruling dated February 10, 2016, 2015/15/0001, the Higher Administrative Court decided that this did not constitute prohibited State aid. Thus, the risk of a reversal no longer exists.

Energy tax rebate in Austria

With regard to the Austrian energy tax rebate, the Austrian Federal Tax Court *(Bundesfinanzgericht)* has submitted a request for a preliminary ruling to the ECJ (Federal Tax Court 10/31/2014, RE/5100001/2014). As a result of the amendment of the Energy Tax Rebate Act *(Energieabgabenvergütungsgesetz)* with the Budget Accompanying Act 2011 *(Budgetbegleitgesetz),* which applies to periods after December 31, 2010, the energy tax rebate was restricted to manufacturing companies. The questions submitted concern the violation of obligations under the General Block Exemption Regulation *(Allgemeine Gruppenfreistellungsverordnung, AGVO),* absent environmental protection measures in the rebate regulation, and the absent temporal restriction of the exemption. According to the statement of the European Commission and the concluding motions of the Advocate General, the stipulated law does not meet the formal requirements of European law in order to be exempted from the State aid notification requirement. If the ECJ adheres to this legal opinion, the required approval of the European Commission would not be granted and the energy tax rebate would have to again be extended to service providers. According to the current status of this proceeding, no negative consequences are anticipated for voestalpine AG.

Economic and financial crisis

Based on the knowledge gained as a result of the recent economic and financial crises and their effect on the voestalpine Group, additional—primarily corporate—measures were taken during the past several years to minimize risk exposure, and these measures continued to be consistently implemented in the last business year and will continue in the coming years.

These measures are in particular targeted at

- Minimizing the negative effects that a recessionary economic trend would have on the Company by means of relevant planning precautions (scenario planning)
- Maintaining high product quality with concurrent continual increases in efficiency and ongoing cost optimization
- Having sufficient financial liquidity available even in the event of constricted financial markets, and
- Securing in-house expertise even more efficiently than before with a view to continuing the long-term expansion of the Group's quality and technology leadership

Concrete measures to eliminate or minimize the risks previously identified within the voestalpine Group have been developed and implemented. These measures are aimed at reducing potential losses and/or minimizing the likelihood of losses occurring.
It can be stated that, from today's perspective, the voestalpine Group is exposed to limited, manageable risks that do not threaten the continuation of the Group as a going concern. There is no indication of any risks that endanger the future survival of the Group.

Report on the key features of the Group's internal control and risk management systems with regard to accounting procedures

In accordance with Section 243a (2) of the Austrian Commercial Code *(Unternehmensgesetzbuch, UGB)* as amended by the Austrian Company Law Amendment Act of 2008 *(Unternehmensrechts-Änderungsgesetz, URÄG)*, companies whose shares are traded on the regulated markets must describe the key features of their internal control and risk management system with regard to accounting procedures in their management reports.

It is the responsibility of the Management Board to establish a suitable internal control and risk management system for accounting procedures pursuant to Section 82 of the Austrian Stock Corporation Act *(Aktiengesetz, AktG)*. Therefore, the Management Board of voestalpine AG has adopted guidelines that are binding for the entire Group.
In line with the decentralized structure of the voestalpine Group, the local management of each Group company is obligated to establish and refine an internal control and risk management system for accounting procedures that meets the requirements of that individual company and ensures compliance with existing Group-wide guidelines and regulations.

The entire process, from procurement to payment, is subject to strict and unified Group-wide guidelines that are designed to reduce the risks associated with the business processes to a minimum. These Group guidelines set forth measures and rules for avoiding risk, such as, the separation of functions, signature authority rules, and particularly, signatory powers for authorizing payments that apply only collectively and are limited to only a few persons (four-eyes principle).

In this context, control measures for IT security constitute a cornerstone of the internal control system. Issuing IT authorizations restrictively supports the separation and/or segmentation of sensitive activities. Accounting in the individual Group companies is largely performed using SAP software. The reliability of these SAP systems is being guaranteed by automated business process controls that are built into the system as well as by other methods. Reports about critical authorizations and authorization conflicts are generated automatically.

In preparing the consolidated financial statements, the data for fully consolidated entities is transferred to the unified Group consolidation and reporting system.
The unified Group accounting policies for recording, posting, and recognition of commercial transactions are regulated in the voestalpine consolidated financial statements handbook and are binding for all Group companies.

On one hand, automatic controls built into the reporting and consolidation system, together with numerous manual reviews on the other, are implemented in order to avoid material misstatements to the greatest extent possible. These controls extend from management reviews and discussions of income and expenses for each period through to the specific reconciliation of accounts. The summarizing presentation of how the Group reports its accounting processes is provided in the voestalpine AG controlling handbook.
The accounting and controlling departments of the individual Group companies submit monthly reports with key performance indicators (KPIs) to their own managing directors and heads of the divisions, and, after approval, to the holding division Corporate Accounting & Reporting to be aggregated, consolidated, and reported to the Group Management Board. Quarterly reports include additional information, such as detailed target-performance comparisons, and follow a similar process. Quarterly reports are submitted to the Supervisory Board, Board, or Advisory Board of each Group company and a consolidated report is submitted to the Supervisory Board of voestalpine AG.
As with operational risks, accounting procedures are also subject to Group risk management. In this context, possible risks regarding accounting are analyzed on a regular basis, and measures to avoid them are taken. The focus is placed on those risks that are regarded as fundamental to the activities of that company.
Compliance with the internal control system, including the required quality standards, is monitored on an ongoing basis in the form of audits at the Group company level. The Internal Audit department works closely with the responsible Management Board members and managing directors. The Internal Audit department reports directly to the CEO and submits reports periodically to the Management Board and, subsequently, to the Audit Committee of the Supervisory Board of voestalpine AG.
The control systems and their Group-wide implementation are also subject to audit procedures by the auditor within the scope of preparation of the annual financial statements to the extent that these control systems are relevant to the preparation of the Group's consolidated financial statements and to a true and fair view of the Group's financial position.

Disclosures on capital, share, voting, and control rights and associated obligations

As of March 31, 2016, the share capital of voestalpine AG amounted to EUR 317,851,287.79 and is divided into 174,949,163 no-par value bearer shares. There are no restrictions on voting rights (1 share = 1 vote). voestalpine AG is unaware of any agreements among its shareholders or between its shareholders and third parties that restrict voting rights or the transfer of shares.
Raiffeisenlandesbank Oberösterreich Invest GmbH & Co OG, Linz, as well as the voestalpine Mitarbeiterbeteiligung Privatstiftung (a private foundation for the Company's employee participation plan), Linz, each hold more than 10% of the Company's share capital. Oberbank AG, Linz, holds more than 5% (and less than 10%) and Norges Bank (Norwegian Central Bank) holds more than 4% (and less than 5%) of the Company's share capital.

The Management Board of voestalpine Mitarbeiterbeteiligung Privatstiftung exercises the voting rights of shares that are held in trust by voestalpine Mitarbeiterbeteiligung Privatstiftung for the employees of the Group companies of voestalpine AG participating in the employee participation plan. However, the way in which the voting rights are exercised requires the approval of the Advisory Board of the voestalpine Mitarbeiterbeteiligung Privatstiftung. The Advisory Board decides on the approval with a simple majority. The Advisory Board is constituted on a basis of parity, with six members representing employees and six members representing the employer. The Chairman of the Advisory Board, who must be appointed by the employee representatives, has the deciding vote in the event of a tie.

With regard to the Management Board's powers that are not derived directly from applicable statutes, such as the purchase of the Company's own shares, authorized or contingent capital, reference is made to item 17 (Equity) of the notes to the consolidated financial statements 2015/16.

The hybrid bond issued in March 2013 with a volume of EUR 500 million, EUR 500 million fixed-interest securities 2011–2018, EUR 500 million fixed-interest securities 2012–2018, EUR 400 million fixed-interest securities 2014–2021, the promissory note loans in the amount of a total of EUR 687.5 million and USD 100 million, and the syndicated loan executed in March 2015 in the amount of EUR 900 million (used for general corporate purposes and to refinance the syndicated loan 2011; of which EUR 600 million is being used as a revolving credit facility to ensure liquidity) and bilateral loan agreements amounting to EUR 526 million and USD 399.5 million contain so-called change-of-control clauses. With the exception of the hybrid bonds, according to the terms of these financing agreements, the bondholders or the lending banks have the right to demand redemption of their bonds or repayment of their loans if control of the company changes. Under the terms and conditions of the hybrid bond issue, the fixed interest rate (interest rate during the fixed-interest periods) and/or the margin (interest rate during the variable interest periods) go up by 5% 61 days after a change in control occurs. voestalpine AG has the right to call and redeem the bonds no later than 60 days after a change in control. According to the terms and conditions of the aforementioned bond and financing agreements, control by voestalpine AG changes when a controlling interest within the meaning of the Austrian Takeover Act *(Übernahmegesetz)* is acquired by another party.

The Company has no compensation agreements with the members of the Management Board, Supervisory Board, or employees in the event of a public tender offer.

Outlook

"Looking back at the past business year 2014/15, it must be stated that the expectations at the beginning of the year, namely, a transition of the global economic trend from its crisis mode, which has now lasted for five years, to a broad-based upwards trend have once again not been fulfilled. Apart from the USA and Mexico, a few countries in Southeast Asia, and individual European countries, reality ultimately fell far short of the original hopeful predictions, just as it had in previous years."

One would be hard put to find a better description for the past business year if this were not already the description of the previous year in the Annual Report, as one can see from the year mentioned—2014/15. Once again, it is all too clear how far removed not just the European economy, but the entire global economy is from what used to be seen as "normal" economic development—even seven years after Lehman.

The economic conditions at the beginning of the business year 2016/17 make an improvement of the global economic situation in the short term unlikely. This is also reflected in the most recent economic forecasts by a number of economic institutions, such as the International Monetary Fund and the OECD. Apart from the economic factors, a sustainable economic recovery would require a deescalation of the political troublespots throughout the world, particularly those in the Middle East and Africa. However, there are very few indications that this will indeed occur. The fact that those regions that drove the growth of the global economy in recent years have lost some of their momentum has more direct economic effects. This applies particularly to China, but also to the USA, whose weaker growth cannot realistically be compensated by increasing economic momentum in India and a certain recovery in parts of Europe. No economic growth can be expected in the course of this year from Brazil and Russia, which are both in economic crisis.

Despite this overall difficult environment, since the beginning of 2016, there have been indications that the economic situation will ease up somewhat in the course of the year. This includes a certain stabilization of raw materials prices, primarily the oil price, as well as a significantly more stable global foreign exchange system and continued strong development of the automotive industry. In the second half of the year, the first positive effects of the new Chinese five-year plan and the corresponding economic stimulus measures by the Chinese central bank could take effect. In Europe, the measures initiated by the EU Commission to stimulate the economy and the measures to promote growth by the European Central Bank are already making themselves felt more strongly in 2016 than had been the case in the previous year.

What kind of trend to expect as far as demand is concerned in the course of the business year is very different for the individual industrial segments. In the automotive industry, the most important revenue segment of the voestalpine Group by far, a stable trend with regard to demand is expected to continue at a high level worldwide. The situation in the railway infrastructure sector is more highly differentiated, although it is fundamentally positive as it is driven by satisfactory demand in Europe and China. However, there are regional segments with weaker demand, for example, the heavy-haul railways in the raw materials sector. The aerospace industry continues to demonstrate a strong, positive trend. While it is the smallest sector in the Group with regard to revenue and sales volume, it is also the sector showing the greatest level of growth in the mobility sector whose customer portfolio generates almost 50% of the Group's revenue.

The energy sector, which accounts for about 15% of voestalpine's revenue, is far more challenging. The direction this sector will take as the business year continues is very difficult to foresee. Conventional energy generation (construction of power plants and energy engineering) in Europe finds itself in a permanent restructuring process as a result of the severe drop in demand associated with the so-called energy transition; rising demand is limited to emerging markets, particularly China and India, which have now become largely autonomous as far as plant engineering is concerned. The oil and natural gas market, which had come apart at the seams in 2015 as a result of a massive global glut, has most recently showed some cautious consolidation tendencies with regard to prices. If and to what extent there will be an actual revival of facility and equipment investment during the new business year is still up in the air.

Economic development in the consumer goods, white goods, and electrical industries is stable at a solid level overall, albeit not particularly spectacular, while demand in the mechanical engineering sector is significantly more volatile, although a positive trend—not only in Europe—has been noticeable most recently. The performance of the construction industry, which is important for the overall development of the economy but is only marginally relevant for the voestalpine Group, differed widely not only from a global perspective but also when viewed from a narrower European viewpoint. Currently, attempts are being made especially in Europe, but most recently in China as well, to undertake government stimulus measures to step up growth momentum in this sector.

Since the summer of 2015, the specific problems of the steel industry resulting from a general weakness in the economy and massive overcapacity in the industry itself are being dramatically exacerbated—not only in Europe but in other regions as well—by sharply increased exports at dumping prices from a number of countries, notably China. The voestalpine Group has remained comparatively unscathed by this development due to its high-tech/high-quality strategy, which it has practiced for more than 15 years and its downstream strategy that builds on that, which it has also implemented over the same period. This special position, which comes into play especially in challenging times, is the result of the fact that today, around 70% of voestalpine's revenue comes from the advanced capital goods sector, such as complete turnout systems for high-speed railway lines, complex automotive components, and sophisticated aerospace parts. But the remaining 30% of revenue is also generated by high-quality steel products, which differ dramatically from the commodities sold on the spot market and which are sold exclusively through direct and long-term contractual relationships with end customers. The Group's positioning, which is markedly differentiated from the competition, is clearly focused on the technology and capital goods sectors and is supported by ongoing efficiency improvement and cost optimization programs; for instance, in 2016/17 the most recent program, which had a duration of three years and included improvements totaling EUR 1 billion, will be entering its final phase.

Against the backdrop of this very specific global positioning, the voestalpine Group should be able to achieve an (adjusted) operating result (EBITDA) and (adjusted) profit from operations (EBIT) in the business year 2016/17 that will at least come close to the (adjusted) figures in the past business year even if the economic environment remains challenging. Due to the extreme political and economic uncertainties in the current environment, making any additional forecast would contradict the requirements of responsible corporate and capital market communication.

Linz, May 25, 2016

The Management Board

Wolfgang Eder	Herbert Eibensteiner	Franz Kainersdorfer
Robert Ottel	Franz Rotter	Peter Schwab

This report is a translation of the original report in German, which is solely valid.