Metal Engineering Division

Market environment and business development

The performance of the Metal Engineering Division in 2015/16 was characterized by a sustained favorable environment in its most important market segment, railway infrastructure. The fact that the (adjusted) earnings figures were ultimately lower than those of previous years is largely due to the dramatic deterioration of the market environment for oil and natural gas in the course of the year. As a result of both market- and cost-based measures that were taken promptly, the decline of the operating result was kept at a manageable level and steel capacity at the site in Donawitz, Austria, was largely fully utilized throughout the entire business year 2015/16.
In the Rail Technology business segment, the trend on the European market was particularly gratifying. As a result both production and delivery volume of high quality rail grades reached a new record level in the business year 2015/16. In contrast, the overseas railway projects, especially in the heavy-haul transport market, experienced comparatively weak demand, especially from the mining sector, for the first time in years. The commissioning of a new walking beam furnace in the fourth quarter of the business year 2015/16 was another step toward an additional increase in productivity and quality in the Rail Technology business segment.

The Turnout Systems business segment can look back the most successful business year in its history. This enabled the division to not only compensate for the weakness in demand from the mining sector but to emphasize its position as the global leading provider of turnout systems due to further growth in both the high-speed and mass transit segments. Viewed regionally, the Turnout Systems business segment benefited from continuing demand from the USA for turnouts for urban use, while demand from the heavy-haul transport segment softened noticeably in the course of the year. On one hand, this decline has structural reasons (reduction of the transport volume of coal for power plants due to the shift to natural gas-powered power plants) and economic reasons on the other (reduced transports of raw materials, e.g., oil, ore, coal, equipment). Declining raw materials transports due to economic listlessness are also the reason for reduced investment in railway infrastructure in Australia, Brazil, and South Africa. In China, extensive investments in the expansion of the high-speed network continued, resulting in a sustained solid trend, while in India, bureaucratic obstacles led to project delays. As far as Europe is concerned, the Turnout Systems business segment benefited from extensive investments in the maintenance and expansion of the railway network.
In the Wire Technology business segment, the cornerstone was the momentum in demand from the automotive industry in the business year 2015/16. In contrast, incoming orders from the construction and mechanical engineering segments were subdued. The run-up phase for production of ultra-high-tensile fine wire at a new plant in Fürstenfeld, Austria, is going well, especially due to increasing customer demand from the revitalized photovoltaics industry. The Italian wire processing company Trafilerie Industriali S.p.A., which was acquired in the previous year, has been successfully integrated into the Wire Technology business segment. In 2016/17, the focus of the business segment will be on the completion of the commissioning process of the new wire rolling mill in Donawitz, Austria.
In the business year just ended, Seamless Tubes, the business segment in the voestalpine Group

Key figures of the Metal Engineering Division

In millions of euros	2014/15	2015/16	Change in %
Revenue	2,593.0	2,850.4	9.9
EBITDA	419.8	510.9	21.7
EBITDA margin	16.2%	17.9%	
EBIT	292.1	314.9	7.8
EBIT margin	11.3%	11.0%	
Employees (full-time equivalent)	11,685	12,675	8.5

Key figures of the Metal Engineering Division adjusted

In millions of euros	2014/15	2015/16	Change in %
Revenue	2,593.0	2,850.4	9.9
EBITDA adjusted	419.8	384.4	–8.4
EBITDA margin adjusted	16.2%	13.5%	
EBIT adjusted	292.1	251.5	–13.9
EBIT margin adjusted	11.3%	8.8%	
Employees (full-time equivalent)	11,685	12,675	8.5

that has most exposure to the current weakness of the oil and natural gas industries, faced a significant decline in incoming orders, especially due to the deterioration of its most important market North America. While oil exploration activities in the USA were at a historically low level, demand from the Middle East remained relatively satisfactory, although price competition was fierce. Comprehensive cost reduction measures, including personnel adjustments, but also new, innovative product solutions to increase productivity in oil and natural gas production were the most important countermeasures taken to cushion the precarious market trend.

The Welding Consumables business segment faced a continuing weak market in 2015/16—as had been the case in previous years, especially in the European energy engineering and power plant construction market. Viewed regionally, market conditions remained very challenging in Europe and particularly in China and Brazil. The optimization measures launched in the business year 2013/14 should produce a substantial operational improvement in this business segment by 2016/17, despite continuing weak demand in its core markets.

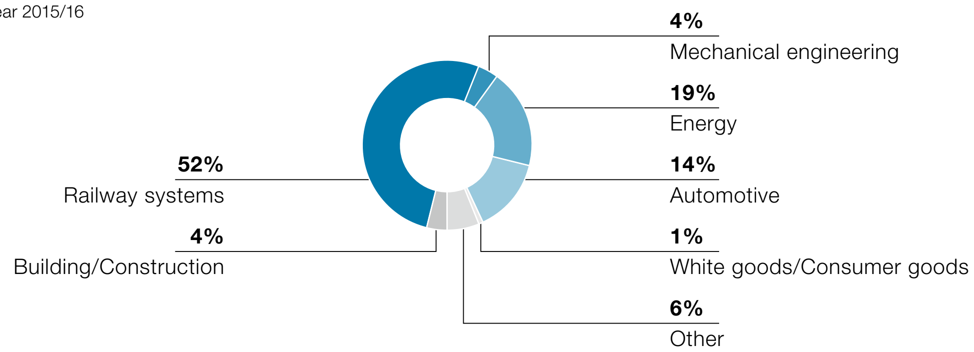
Financial key performance indicators

The Metal Engineering Division's key figures in the business year 2015/16 were quite solid considering the challenging market conditions in the energy sector. The division increased its revenue by 9.9% from EUR 2,593.0 million in the previous year to EUR 2,850.4 million in the reporting period; this gain is primarily the result of the first-time full consolidation of the revenue generated by voestalpine Tubulars GmbH & Co KG, voestalpine Tubulars GmbH (both Seamless Tubes business segment) and CNTT Chinese New Turnout Technologies Co., Ltd. (Turnout Systems business segment). The equity method had been used by the companies to report financial results up to and including the business year 2014/15 so that their earnings were not included in the voestalpine consolidated financial statements. The increase in earnings is due to non-recurring effects in connection with the acquisition of the controlling interest in the two companies, which were fully consolidated for the first time. In the business year 2015/16, the division reported positive non-recurring effects from reassessments of these two companies based on fair value less depreciation of hidden reserves totaling EUR 126.5 million reported in the operating result (EBITDA) and EUR 63.4 million reported in profit from operations (EBIT).

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 market trend, in particular, the prices for oil and natural gas, which have fallen considerably.
Overall, the operating result (EBITDA) improved by 21.7% compared with the previous year, going from EUR 419.8 million to EUR 510.9 million, while profit from operations (EBIT) rose by 7.8% from EUR 292.1 million to EUR 314.9 million. Disregarding any non-recurring effects, EBITDA declined by 8.4% to EUR 384.4 million and EBIT fell by 13.9% to EUR 251.5 million. The adjusted EBITDA margin in the business year 2015/16 is 13.5% (previous year: 16.2%), while the EBIT

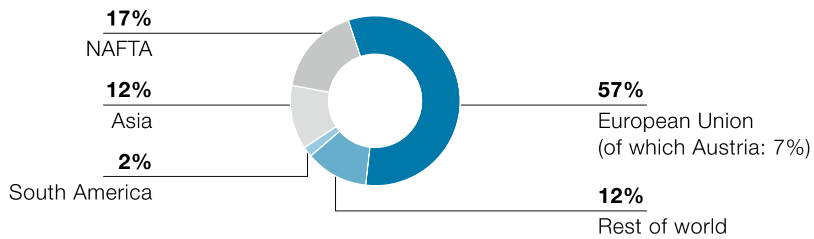
Customers of the Metal Engineering Division

As percentage of divisional revenue
Business year 2015/16



Markets of the Metal Engineering Division

As percentage of divisional revenue
Business year 2015/16



margin adjusted for non-recurring effects dropped from 11.3% to 8.8%. The outstanding performance in the Railway Systems business segment and the concurrent cost reduction measures in the wake of the challenging conditions in the oil and natural gas sector were not sufficient to fully compensate the extremely weak market in the energy sector.

A quarter-to-quarter comparison of the fourth quarter of 2015/16 with the immediately preceding quarter shows a decrease in revenue of 7.3% from EUR 687.7 million in the third quarter to EUR 637.4 million in the following quarter. Due to project- and accounting-related reasons, business volume for rails and turnout systems in the first calendar quarter was slightly below the level of the fall quarter. EBITDA declined in a quarter-to-quarter comparison by 6.6% from EUR 90.4 million to EUR 84.4 million, while the margin remained stable at 13.2% (margin in the third quarter: 13.1%). EBIT was affected by negative non-recurring effects in both quarters: EUR −6.2 million in the third quarter and EUR −44.5 million in the fourth quarter. Adjusted for the non-recurring effects, EBIT in the fourth quarter was EUR 49.0 million, 15.8% under the figure in the third quarter (EUR 58.2 million) due to seasonal effects. The adjusted EBIT margin declined commensurately from 8.5% to 7.7%.

As of March 31, 2016, the Metal Engineering Division had 12,675 employees (FTE), almost 1,000 persons or 8.5% more than on the same reporting date in the past business year (11,685). This rise is largely due to the fact that the staff of voestalpine Tubulars GmbH & Co KG, voestalpine Tubulars GmbH, and CNTT Chinese New Turnout Technologies Co., Ltd. were included in the overall number of employees as these companies were fully consolidated for the first time.

Quarterly development of the Metal Engineering Division

In millions of euros	1st quarter 2015/16	2nd quarter 2015/16	3rd quarter 2015/16	4th quarter 2015/16	BY 2015/16
Revenue	774.0	751.3	687.7	637.4	2,850.4
EBITDA	236.1	100.0	90.4	84.4	510.9
EBITDA margin	30.5%	13.3%	13.1%	13.2%	17.9%
EBIT	197.2	61.2	52.0	4.5	314.9
EBIT margin	25.5%	8.1%	7.6%	0.7%	11.0%
Employees (full-time equivalent)	13,097	13,080	12,652	12,675	12,675

Quarterly development of the Metal Engineering Division adjusted

In millions of euros	1st quarter 2015/16	2nd quarter 2015/16	3rd quarter 2015/16	4th quarter 2015/16	BY 2015/16
Revenue	774.0	751.3	687.7	637.4	2,850.4
EBITDA adjusted	109.6	100.0	90.4	84.4	384.4
EBITDA margin adjusted	14.2%	13.3%	13.1%	13.2%	13.5%
EBIT adjusted	76.8	67.5	58.2	49.0	251.5
EBIT margin adjusted	9.9%	9.0%	8.5%	7.7%	8.8%
Employees (full-time equivalent)	13,097	13,080	12,652	12,675	12,675