Steel Division

Market environment and business development

After years of continuing growth in global steel production, 2015 brought a trend reversal. The primary factor behind this development was a structural change in the Chinese economy, from an extremely State-interventionist, investment-driven economic structure to a structure increasingly oriented toward consumerism and services. The Chinese steel industry, which currently makes up around half of all production worldwide, faced declining demand in 2015 for the first time in many years. As it had built up enormous production capacity in the steel sector in the past, it found itself with a huge structural overcapacity. Initially, the reduction in demand had a negative impact on steel prices locally due to increased competition. Subsequently, Chinese steel manufacturers dramatically expanded their export activity with the result that global steel prices came under pressure very quickly. The situation was exacerbated by the rapid plunge in prices for the primary raw materials used in steel production, caused, in turn, by declining raw materials consumption in China.

Many of the countries affected by the imports from China reacted to the glut of commodity products by imposing punitive import duties. In the spring of 2015, the European Commission initiated an investigation into dumping allegations regarding cold-rolled steel strip from China and Russia, which ultimately resulted in the imposition of provisional punitive import duties in February 2016. Also in February 2016, the Commission began a dumping investigation regarding the much more important product groups of hot-rolled steel strip and heavy plate from China, however, the decision regarding provisional import duties is not expected prior to the fall.

The development of steel prices in Europe in the past business year must be viewed against this backdrop. Despite that fact that the demand situation in those customer segments, which are significant for the steel industry, was solid—with the exception of the construction industry—toward the end of 2015, prices for hot-rolled strip on the spot market in Southern Europe fell to below EUR 300 per ton. Prices had not fallen that low even during the height of the financial and economic crisis. Although the Steel Division is firmly oriented toward high-end grades and is focused on contracted transactions with longstanding customers, it was not able to remain entirely immune to the negative sentiment. However, price cuts were considerably lower than was the case on the commodity-focused spot market. Toward the end of the business year 2015/16, steel prices on the spot market recovered slightly, however, this was due mostly to an increase in raw materials prices than to a change in the general mood.

The Steel Division benefited from its orientation toward the most sophisticated market segment, the automotive industry, which drove full capacity utilization in all of the division's major plants. Registrations of new cars in the European Union in the 2015 calendar year were again almost 10% above the previous year's level, which had already been very good. In addition to the premium producers, the manufacturers of compact and sub-compact cars were able to raise their production numbers to solid levels for the first time in quite a while. Leading European automobile manufacturers, who have high growth rates in China and the USA, are now supplied with high-quality steel grades and/or components manufactured from these grades by the Steel Division not only at their European production sites but increasingly at their international sites as well.

Key figures of the Steel Division

In millions of euros	2014/15	2015/16	Change in %
Revenue	3,873.9	3,753.7	–3.1
EBITDA	450.3	478.3	6.2
EBITDA margin	11.6%	12.7%	
EBIT	208.0	220.0	5.8
EBIT margin	5.4%	5.9%	
Employees (full-time equivalent)	11,103	10,891	–1.9

Due to subdued global growth in its most important industrial sectors, demand from the European mechanical engineering industry in the business year 2015/16 was volatile and, viewed overall, moderate at best. In contrast, the production numbers in the consumer goods industry, particularly the white goods industry, remained at a healthy level. The construction industry, which—measured against steel demand in all of Europe—has lesser importance for the Steel Division, again did not succeed in returning to a somewhat normal level of demand in the past business year with the exception of a few individual markets.

After construction of a deep-sea pipeline through the Black Sea was definitively scrapped, the focus in the energy segment in 2015/16 was on pipe supply contracts for the Baltic Sea pipeline from Russia to the European Union. In mid-April 2015, the Heavy Plate business segment was awarded a major contract for high-strength, top quality tube plates for the "Nord Stream 2" project. Delivery of several hundred thousand tons of special plate will be carried out between August 2016 and February 2018 to voestalpine's strategic partner OMK, Russia. Capacity utilization of the new heavy plate rolling stand in the business year 2015/16 was satisfactory, due especially to an order for 95,000 tons of high-quality tube plates for a natural gas project in the United Arab Emirates.

Financial key performance indicators

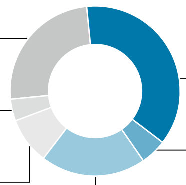
Despite increasingly fierce competition, the Steel Division boosted its earnings-based key performance indicators in the business year 2015/16 in a year-over-year comparison. In contrast, revenue fell slightly, as both the price level and the delivery volumes in 2015/16 were under the previous year's figures. In a year-to-year comparison, revenue went down by 3.1% from EUR 3,873.9 million to EUR 3,753.7 million. While the decline in sales revenue was more than fully compensated by lower input costs for raw materials, the four-and-one-half-month, scheduled major repair of blast furnace 5 resulted in smaller delivery volumes and thus a lower result as well. The fact that in the business year just ended the previous year's operating result (EBITDA) and profit from operations (EBIT) have been surpassed is due to the positive effects of the ongoing efficiency and cost optimization program. Consequently, the operating result (EBITDA) rose by 6.2% from EUR 450.3 million in the business year 2014/15 to EUR 478.3 million in 2015/16, with the EBITDA margin increasing from 11.6% to 12.7%. EBIT improved by 5.8% from EUR 208.0 million (margin: 5.4%) to EUR 220.0 million (margin: 5.9%).

In a direct quarter-to-quarter comparison between the third and the fourth quarter of 2015/16, the figures were also positive. Due to a significant increase in delivery volume, revenue showed a gain of 8.8% from EUR 844.3 million to EUR 918.6 million. Greater volumes also resulted in a boost of the operating result (EBITDA) by 11.2% from EUR 106.6 million in the third quarter to EUR 118.5 million in the fourth quarter of 2015/16. The EBITDA margin rose slightly from 12.6% to 12.9%. EBIT improved in the same period by 10.9% from EUR 41.4 million (margin: 4.9%) to EUR 45.9 million (margin: 5.0%).

As of March 31, 2016, the Steel Division had 10,891 employees (FTE); in comparison to the figure on the reporting date in the previous year (11,103 employees), this corresponds to a slight decrease of 1.9%.

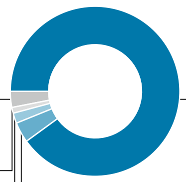
Customers of the Steel Division

As percentage of divisional revenue
Business year 2015/16



Markets of the Steel Division

As percentage of divisional revenue
Business year 2015/16



Quarterly development of the Steel 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	1,060.9	929.9	844.3	918.6	3,753.7
EBITDA	134.2	119.0	106.6	118.5	478.3
EBITDA margin	12.6%	12.8%	12.6%	12.9%	12.7%
EBIT	74.7	58.0	41.4	45.9	220.0
EBIT margin	7.0%	6.2%	4.9%	5.0%	5.9%
Employees (full-time equivalent)	11,036	11,054	10,858	10,891	10,891