STEEL DIVISION

QUARTERLY DEVELOPMENT OF THE STEEL DIVISION

In millions of euros	Q 1		Q 2		H 1		
	2016/17 04/01–06/30/2016	2017/18 04/01–06/30/2017	2016/17 07/01–09/30/2016	2017/18 07/01–09/30/2017	2016/17 04/01–09/30/2016	2017/18 04/01–09/30/2017	Change in %
Revenue	909.0	1,213.3	867.1	1,085.5	1,776.1	2,298.8	29.4
EBITDA	87.2	227.8	143.6	214.9	230.8	442.7	91.8
EBITDA margin	9.6%	18.8%	16.6%	19.8%	13.0%	19.3%	
EBIT	21.1	150.2	76.0	137.7	97.1	287.9	196.5
EBIT margin	2.3%	12.4%	8.8%	12.7%	5.5%	12.5%	
Employees (full-time equivalent)	10,869	10,810	10,928	10,905	10,928	10,905	–0.2

MARKET ENVIRONMENT AND BUSINESS DEVELOPMENT

The broad economic upturn in Europe that started at the beginning of 2017 generated substantial positive momentum in the steel industry, too. In the year to date, the greatly improved investment climate, especially in the private sector, has also triggered a significant recovery in the steel market. This eased European manufacturers' capacity utilization issue despite continued high levels of imports into Europe. On the price side, this development was supported by the successful implementation EU-wide of anti-dumping duties especially against Chinese but also other manufacturers. The closing of a few steel plants, which occurred in conjunction with the positive development of the Chinese economy, also contributed to the easing.

Against this backdrop, the performance of the Steel Division with its focus on the leading quality segments in the steel sector in the first half of 2017/18 was excellent. The division benefitted from flourishing demand across the board. As a result, it was able to rely on absolutely strong orders from the automotive industry. Whereas new vehicle sales in Europe had already reached a very high level in 2016, the statistics on new vehicle registrations for the first nine months of 2017 confirm a positive trend that continues unabated. The overall improvement regarding capacity utilization in the industry along with a continued low interest rate environment also triggered greater demand from the European mechanical engineering industry. Developments in the construction industry were positive as well and the electrical industry gained additional momentum, while the white goods segment succeeded in maintaining the previous year's stable, positive performance. The picture that emerges for the oil and gas sector, which is important to the heavy plate business segment, is a bit more differentiated yet positive for the Steel Division. Even though just a few projects were awarded in the deep sea pipeline segment, several major orders from this sector assure absolutely solid capacity utilization of the division's heavy plate facility far beyond the current business year.

The fact that the direct reduction plant in Corpus Christi, Texas, became fully operational on April 1, 2017, is a promising step. Both the product quality and the market environment during the first few months of the facility's regular operations were favorable. At the end of August 2017, however, the plant was affected by the fallout from hurricane Harvey. Although the facility itself did not sustain any major damage, problems related to both logistics and supply systems in the local environment made a lengthy closure inevitable. But supplies to customers were maintained without major problems regardless.

FINANCIAL KEY PERFORMANCE INDICATORS

The Steel Division's key performance indicators also reflect the fact that, in the first half of 2017/18, it was embedded in an excellent economic environment. The significant increase in revenue by 29.4% from EUR 1,776.1 million in the previous year to currently EUR 2,298.8 million results primarily from a substantial price increase (caused in part by rising raw materials costs during the year's first half) for sophisticated flat steel products due to excellent demand. Even more impressive than the revenue growth is the year-over-year increase in earnings. The operating result (EBITDA) thus climbed by 91.8% from EUR 230.8 million (margin of 13.0%) in the first half of 2016/17 to EUR 442.7 million (margin of 19.3%) in the completed first half of 2017/18 despite the negligible growth in unit sales. While the previous year's operating result was impacted by the start-up losses of the direct reduction plant in Texas, USA, as well as negative effects from blast furnace 5, which was operating at only reduced capacity, in the first half of the current year, the loss of the Texas plant's productive capacity in the wake of hurricane Harvey was the only negative factor that impacted earnings.

The period-to-period comparison shows that the profit from operations (EBIT) of the Steel Division even rose by 196.5% from EUR 97.1 million to EUR 287.9 million, more than doubling the margin from 5.5% to 12.5%.

The direct quarter-to-quarter comparison shows that, compared with the excellent performance in the business year's first quarter, the upward trend weakened only a bit in the second quarter of 2017/18; aside from the hurricane-induced plant shutdown in Texas, this stems mainly from seasonal effects (major customers' regular summer plant closures). Against this backdrop, revenue fell by 10.5% from EUR 1,213.3 million in the first quarter of 2017/18 to EUR 1,085.5 million in the second quarter. The operating result (EBITDA) declined at the same time by 5.7% from EUR 227.8 million to EUR 214.9 million. However, the lower revenue caused the EBITDA margin to improve from 18.8% to 19.8%. The quarter-to-quarter comparison shows that EBIT fell by 8.3% from EUR 150.2 million (margin of 12.4%) in the first quarter of 2017/18 to EUR 137.7 million (margin of 12.7%) in the second quarter.

At 10,905 employees, the number of employees (FTE) in the Steel Division at the end of the first half of 2017/18 was marginally lower than the number (10,928) in the same period of the previous business year but marginally higher than the number (10,898) at the end of the previous business year.

HIGH PERFORMANCE METALS DIVISION

QUARTERLY DEVELOPMENT OF THE HIGH PERFORMANCE METALS DIVISION

In millions of euros	Q 1		Q 2		H 1		
	2016/17 04/01–06/30/2016	2017/18 04/01–06/30/2017	2016/17 07/01–09/30/2016	2017/18 07/01–09/30/2017	2016/17 04/01–09/30/2016	2017/18 04/01–09/30/2017	Change in %
Revenue	667.1	739.3	638.9	692.1	1,306.0	1,431.4	9.6
EBITDA	99.2	127.4	94.3	99.1	193.5	226.5	17.1
EBITDA margin	14.9%	17.2%	14.8%	14.3%	14.8%	15.8%	
EBIT	63.4	89.6	58.2	62.6	121.6	152.2	25.2
EBIT margin	9.5%	12.1%	9.1%	9.0%	9.3%	10.6%	
Employees (full-time equivalent)	13,507	13,823	13,573	13,950	13,573	13,950	2.8

MARKET ENVIRONMENT AND BUSINESS DEVELOPMENT

The High Performance Metals Division operated in a largely positive market environment in the first half of 2017/18. However, the division's very solid earnings trend stems not just from external factors, but also from its consistent focus on products with unique selling propositions in both technological and qualitative terms as well as the continuous expansion of its service organization.

Aside from the pleasing development of the market, the tool steel segment—products especially for the customer segments, automotive and consumer goods industries—also benefitted from the further improvement in its product mix, which results above all from a higher share of remelted products and those that are manufactured using a powder-metallurgical process. The uptick in orders in the oil and gas segment, which had already made itself felt in the previous period, continued. Internationally, the push to launch projects aimed at developing additional oil and gas deposits intensified even though oil prices remain low. This is due not least to new exploration technologies that enable the economically feasible development of new resources in spite of the still relatively low oil price. Given the more recent withdrawal of some distributors from the oil and gas business, the division's worldwide on-site presence is proving to be an increasingly distinguishing feature relative to the competition, particularly in this situation. In the aerospace industry segment, model changes have currently led to occasional and slight delays in deliveries of forged products, but this does not affect the positive development overall of the aerospace sector. However, there is still no sign of a recovery in the European energy engineering market. As there are no significant new power plant construction projects in this segment, business activities are limited to the maintenance of existing plants.

Regionally, the High Performance Metals Division—just as the Group on the whole—benefits above all from the economic recovery in Europe, which continues unabated. In sectoral terms, the positive development stems especially from the improved economic environment in the oil and gas sector, and there has been a clear revival of demand in this segment particularly in North America. The upturn in tool steel, by contrast, was accompanied by buyers' increasingly volatile behavior. In South America, especially Brazil, the economy stabilized on a low level compared with the previous year not least due to intensifying export activity that is being driven by positive foreign currency effects. Internally, the division's performance benefitted above all from far-reaching measures aimed at boosting efficiency as well as the development of new business opportunities, first and foremost, in the additive manufacturing segment. In the main growth market China, the leading position with respect to high-performance metals incl. services for sophisticated tools with a focus on the automotive and consumer goods industries was expanded. The market environment in Asia is satisfactory overall.

In manufacturing, capacity utilization in the first half of 2017/18 rose yet again due to the solid development of demand especially for premium products. The decision to build the world's most advanced special steel plant in Kapfenberg, Austria, was taken in late September 2017 (investment volume of EUR 330 million to EUR 350 million, start-up in 2021). Thanks to a number of strategic investments, the Value Added Services business segment succeeded in expanding its global market leadership in the first half of 2017/18. Here, it is particularly the focus on the ability to make deliveries on short notice that leads to greater customer loyalty. The establishment of sites in both Taiwan and Canada expanded the international additive manufacturing network.

FINANCIAL KEY PERFORMANCE INDICATORS

In a period-to-period comparison, the positive market environment led to significant improvements in the division's key financial performance indicators. Besides the expansion by about 4% of the delivery volume compared with the same period of the previous year, prices were raised and the product mix was improved. In turn, this resulted in a 9.6% increase in revenue from EUR 1,306.0 million in the first half of 2016/17 to EUR 1,431.4 million in the first half of 2017/18, which gave the earnings figures a substantial boost in the current business year as well. The operating result (EBITDA) climbed by 17.1% from EUR 193.5 million in the first half of 2016/17 to EUR 226.5 million in the first half of 2017/18. As a result, the EBITDA margin improved from 14.8% to 15.8%. The profit from operations (EBIT) rose by 25.2% in the same period, specifically, from EUR 121.6 million (margin of 9.3%) to EUR 152.2 million (margin of 10.6%).

A quarter-over-quarter comparison shows that revenue fell by 6.4% from EUR 739.3 million in the first quarter to EUR 692.1 million in the second quarter. This development is largely due to the lower price environment that stems from declining alloy costs, whereas delivery volumes remained stable despite the summer quarter. However, the second quarter was buffeted nonetheless by a substantially lower level of manufacturing activity on account of planned maintenance work. Against this backdrop, the operating result (EBITDA) fell by 22.2% from EUR 127.4 million (margin of 17.2%) to EUR 99.1 million (margin of 14.3%). Likewise, EBIT declined in the same period, specifically, by 30.1% from EUR 89.6 million (margin of 12.1%) to EUR 62.6 million (margin of 9.0%).

At 13,950 employees, the number of employees (FTE) at the end of the first half of 2017/18 exceeded the number (13,573) in the same period of the previous business year by 2.8% and the number (13,733) at the close of the previous business year by 1.6%. The rising number of employees stems primarily from the division's expansion in the Value Added Services segment.

METAL ENGINEERING DIVISION

QUARTERLY DEVELOPMENT OF THE METAL ENGINEERING DIVISION

In millions of euros	Q 1		Q 2		H 1		
	2016/17 04/01–06/30/2016	**2017/18** 04/01–06/30/2017	**2016/17** 07/01–09/30/2016	**2017/18** 07/01–09/30/2017	**2016/17** 04/01–09/30/2016	**2017/18** 04/01–09/30/2017	**Change in %**
Revenue	680.4	770.0	652.1	741.2	1,332.5	1,511.2	13.4
EBITDA	87.6	87.2	84.4	90.5	172.0	177.7	3.3
EBITDA margin	12.9%	11.3%	12.9%	12.2%	12.9%	11.8%	
EBIT	49.7	47.0	45.8	34.4	95.5	81.4	–14.8
EBIT margin	7.3%	6.1%	7.0%	4.6%	7.2%	5.4%	
Employees (full-time equivalent)	12,606	13,274	12,709	13,450	12,709	13,450	5.8

MARKET ENVIRONMENT AND BUSINESS DEVELOPMENT

The performance of the customer segments that are most important to the Metal Engineering Division was largely restrained during the first half of 2017/18. The railway systems segment, in particular, which accounts for more than one half of the division's revenue, was confronted with weaker demand for longer stretches in most sales regions. Yet even the oil and gas sector was still a ways off from a dynamic, across-the-board recovery in the first half of 2017/18 despite the satisfactory volume market. By contrast, demand from the automotive industry remained robust in the first six months of the current business year as well.

Demand in the Rail Technology business segment had already started to slump during the previous year and remained at a low level even in the first six months of 2017/18. In the year's first half, the core market, Europe, continued to be characterized by very modest maintenance investments overall; at the same time, the mining regions of Australia and Brazil produced very little momentum. The mass transit projects in the Middle East also experienced delays due to crude oil prices.

Thanks to its strong market position and global diversification, the Turnout Systems business segment succeeded in using its strengths in individual regions to offset market weaknesses in others. While awards for project contracts in Europe, for example, were few and far between, just as in the railways segment, the business segment benefitted from very good demand in China for high-speed turnouts. In North America, the turnout business that is dominated by heavy-haul transports showed slight signs of recovering, whereas the momentum towards implementation of railway infrastructure measures in the mining countries Brazil, Australia, and South Africa remained moderate.

The Wire Technology business segment successfully closed the first half of 2017/18 with the start-up of the new wire rod mill, with the result that the world's most advanced plant of its kind is now fully operational. This means that the existing facility will be shut down completely by the end of October 2017. In market terms, this business segment was able to rely on strong demand from the automotive industry. The upturn in special wires for the oil and gas sector, however, is a lot more subdued. Due to the ongoing challenges in the market, in the first half of 2017/18 the ultra high-strength fine wire product segment, which serves primarily the solar and photovoltaics industry, recognized EUR 15 million in impairment losses on property, plant and equipment, which has a corresponding negative non-recurring effect on earnings.

The upward trend in the Tubulars business segment, which had started after the summer of 2016, continued in the first six months of the current business year—even though the momentum remained modest. Efficiency gains in production technology, which were accomplished to a considerable degree thanks not least to voestalpine's innovations, make shale mining economically attractive despite continued low oil and gas prices compared to the past, thus triggering a significant upturn in this U.S. market in the previous quarters. In contrast, the improvement in the Gulf States' market environment during the same period was halting. While this business segment as a whole largely achieved full capacity utilization of its aggregates, in terms of prices it has been unable so far to keep pace with the positive volume growth, because full capacity utilization of the industry remains but moderate.

The Welding Consumables business segment was confronted with strong competitive pressures in Europe that continued unabated during the first half of 2017/18. This was due above all to ongoing challenges in the energy sector's market environment (lack of power plant projects). By contrast, developments in the Chinese market were attractive, while the already muted demand situation in Brazil (the lead market in South America) was further intensified by high volatility on the currency side.

FINANCIAL KEY PERFORMANCE INDICATORS

In a year-to-year comparison, the Metal Engineering Division succeeded in lifting its revenue by 13.4% from EUR 1,332.5 million in the first half of 2016/17 to EUR 1,511.2 million in the first half of 2017/18. This was due primarily to the price increases that were driven by raw materials as well as the substantial expansion of seamless tube deliveries. The following differentiated picture emerges with respect to earnings: the operating result (EBITDA) rose by 3.3% from EUR 172.0 million (margin of 12.9%) to EUR 177.7 million (margin of 11.8%), while the profit from operations (EBIT) fell by 14.8% from EUR 95.5 million (margin of 7.2%) to EUR 81.4 million (margin of 5.4%). Structurally speaking, two striking changes relative to the previous year impacted EBITDA: substantially weaker earnings in the Rail Technology business segment on account of lower demand from the European railway market occurred in tandem with the substantially improved performance—above all in volume terms—of the Tubulars business segment. The fact that the profit from operations in the first half of 2017/18 deteriorated in contrast to the operating result is due not least to the operational launch of the new wire rod mill at the start of the business year and the resulting increase in depreciation in the Wire Technology segment. Furthermore, depreciation, amortization, and impairment in the current six-month period contain an additional EUR 15 million in non-recurring negative effects from impairment losses on property, plant and equipment in the ultra high-strength fine wire product segment due to challenging market conditions that continue unabated.

A direct comparison of the first and second quarter of the current business year shows that revenue declined by 3.7% from EUR 770.0 million in the first quarter of 2017/18 to EUR 741.2 million in the second quarter. Seasonally lower unit sales especially in the Wire Technology segment (summer breaks in the automotive industry) are responsible for this slight decline in revenue. Comparing the first and second quarters shows that EBITDA fell by 3.8% from EUR 87.2 million to EUR 90.5 million, and that the margin improved accordingly from 11.3% to 12.2%. Because the aforementioned impairment losses on property, plant and equipment in the ultra high-strength fine wires segment largely affect the second quarter, EBIT fell at the same time by 26.8% from EUR 47.0 million (margin of 6.1%) in the first quarter of 2017/18 to EUR 34.4 million (margin of 4.6 %) in the second quarter.

At 13,450, the number of employees (FTE) in the Metal Engineering Division at the end of the second quarter of 2017/18 was 5.8% higher year on year (12,709), which is due mainly to the substantial increase in the production volume in the Tubulars business segment. Compared with the figure (13,157) as of the end of the previous business year, the number of employees has risen by 2.2%.

METAL FORMING DIVISION

QUARTERLY DEVELOPMENT OF THE METAL FORMING DIVISION

In millions of euros	Q1		Q2		H1		
	2016/17 04/01–06/30/2016	2017/18 04/01–06/30/2017	2016/17 07/01–09/30/2016	2017/18 07/01–09/30/2017	2016/17 04/01–09/30/2016	2017/18 04/01–09/30/2017	Change in %
Revenue	615.8	672.7	572.2	648.9	1,188.0	1,321.6	11.2
EBITDA	80.0	88.6	73.4	75.1	153.4	163.7	6.7
EBITDA margin	13.0%	13.2%	12.8%	11.6%	12.9%	12.4%	
EBIT	55.2	61.3	48.1	47.4	103.3	108.7	5.2
EBIT margin	9.0%	9.1%	8.4%	7.3%	8.7%	8.2%	
Employees (full-time equivalent)	10,481	11,300	10,724	11,498	10,724	11,498	7.2

MARKET ENVIRONMENT AND BUSINESS DEVELOPMENT

In the first half of 2017/18, the Metal Forming Division was embedded in a market environment that was solid and stable overall, benefitting especially from the improved sentiment in Europe. Particularly the Automotive Components business segment was driven by excellent unchanging demand from the automotive industry. This is substantiated by the official European statistics on new vehicle registrations, according to which the high auto sales figures in the previous year were topped yet again in the first three calendar quarters of 2017. The premium class segment, which is most important to the division, developed extremely well in both Europe and China whereas, all told, the U.S. market was stable at a satisfactory level. The increase in investments in both North America and China, especially in connection with hot forming facilities ("phs-ultraform®" and "phs-directform®"), is proceeding as planned, in turn continually boosting both the strategic and the financial significance of the sites outside of Europe.

As far as the Tubes & Sections business segment is concerned, conditions in the European market during the first half of 2017/18 improved slightly overall. This applies first and foremost to the commercial vehicle and agricultural machine industry as well as the construction industry. In Great Britain, too, the momentum in these areas was largely sustained despite the negative Brexit vote. Although the situation in South America, economically speaking, has yet to improve, the Tubes & Sections business segment which, to date, has focused largely on Brazil (the biggest single market) has developed clearly positive thanks to efficiency-boosting measures as well as comprehensive cost reduction programs and further successes in exports. Order levels in the United States were only moderate because of continued low investment levels especially in the construction and agricultural machinery industry. In China, by contrast, demand for customer-specific tubes and profiles noticeably improved during the year.

The excellent performance of the Precision Strip business segment is based not just on the good conditions in its European home markets that continue unabated, but also on the expansion of its international market position—the latter due not least to the acquisition last year of a North American competitor. The important sawmill industry, a customer segment, has performed

very well as of late, both in Europe and in China. Demand in the United States in this segment remained stable in the first half of 2017/18.
The strong performance of the Warehouse & Rack Solutions business segment in recent years has continued unabated in the business year 2017/18 to date, primarily on account of the worldwide growth in online commerce.

FINANCIAL KEY PERFORMANCE INDICATORS

The financial indicators of the Metal Forming Division point to a continuous upward movement. The increase in revenue by 11.2% from EUR 1,188.0 million in the first half of 2016/17 to EUR 1,321.6 million in the first six months of the current business year reflects the rise in pre-materials prices, for one, but results from continuous investments in the Automotive Components business segment as well as the continued excellent performance of the Precision Strip business segment, for another. This relatively small segment, in particular, also accounts for a substantial portion of the additional earnings growth in the current business year. On the whole, the division's operating result (EBITDA) climbed by 6.7% from EUR 153.4 million in the first half of 2016/17 to EUR 163.7 million in the first half of 2017/18. The profit from operations (EBIT) improved at a similar ratio, specifically, by 5.2% from EUR 103.3 million to EUR 108.7 million. Due to the even greater increase in revenue, relatively speaking, the EBITDA margin fell slightly from 12.9% to 12.4%, and the EBIT margin from 8.7% to 8.2%.
The quarter-to-quarter comparison shows that revenue declined a bit by 3.5% from EUR 672.7 million in the first quarter of 2017/18 to EUR 648.9 million in the second quarter, due largely to seasonal effects. A downward trend made itself felt in the development of earnings for the same reason (i.e. customers' regular summer plant closures in the two large business segments, Tubes & Sections as well as Automotive Components). From the first to the second quarter, EBITDA fell by 15.2% from EUR 88.6 million to EUR 75.1 million. This also lowered the EBITDA margin from 13.2% to 11.6%. The decline in EBIT was a bit more pronounced: it fell by 22.7% from EUR 61.3 million to EUR 47.4 million, with the result that the EBIT margin declined quarter on quarter from 9.1% to 7.3%.
As of September 30, 2017, the number of employees (FTE) in the Metal Forming Division was 11,498 or 7.2% higher than the past year's figure of 10,724. This increase is due above all to the international expansion of automotive activities. Compared with the number of employees (11,073) at the end of the business year 2016/17, this represents an increase of 3.8%.

INVESTMENTS

While a number of major projects were carried out in the past few years, lifting the voestalpine Group's investment volume significantly over the long-established average, its investment expenditure has dropped significantly in the first half of 2017/18. At EUR 337.9 million, it was 28.2% lower than the previous year's figure of EUR 470.8 million and thus also slightly lower than the depreciation level in the current year. This development also makes clear that the Group succeeded in starting up a multitude of state-of-the-art facilities just in time before the economic upswing in Europe.
In the Steel Division, investment expenditures fell by 60.2% from EUR 229.0 million in the previous year to EUR 91.2 million this year. The division's currently largest project—the construction of continuous casting plant 8 in Linz, Austria—has already reached an advanced stage. Individual components have already been tested successfully, which means that the entire facility will probably be started up before the end of the fourth quarter of 2017/18. However, the first half of 2017/18 also saw preparations for the general overhaul of blast furnace A, which is slated to take place over a period of 100 days in the summer of 2018. The process to create the required pre-materials inventories (slabs) for the downstream rolling facilities has already begun in order to ensure that customers are supplied with highest-quality steel strip as usual during this phase as well.
At EUR 71.4 million, the investment expenditure of the High Performance Metals Division in the first half of 2017/18 was 35.5% higher than in the same period of the previous year (EUR 52.7 million). Among other things, the division just launched the world's largest vacuum hardening furnace in Shanghai, China, where structural parts for lightweight automotive construction are heat treated, in order to be able to respond adequately to the trend toward ever larger compression molding forms. By installing additional