INTERIM MANAGEMENT REPORT

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

REPORT ON THE GROUP'S BUSINESS PERFORMANCE AND THE ECONOMIC SITUATION

EUROPE/EU

Sentiment indicators reveal and hard economic data confirm that the economic momentum in Europe, which already began to grow at the start of the business year 2017/18, has continued to accelerate since then.

This positive development is buttressed to a substantial degree by intensifying investment activity, especially in manufacturing, but there is still room for growth in public spending. While private consumption, up to now the most significant driver of economic growth in Europe, remains at an excellent level, it has seen slightly dampened growth rates in recent months. Continuously improving labor market data with declining unemployment figures and an increase in newly created jobs in almost all EU member states support this development as much as does the momentum of the global economy.

Within the European Union, the gaps between individual member states' level of economic development are beginning to close again: the signs are positive indeed. Political developments that are difficult to predict (e.g. the Brexit, protectionist and nationalist trends in individual countries both inside and outside Europe) as well as the uncertainty regarding the future trajectory of the financial markets currently pose the biggest risks to a longer-term economic upswing.

In an environment that is currently defined by positive expectations, also the European business activities of the voestalpine Group were very successful in the first half of 2017/18. For example, the most important customer segment, i.e. the automotive business that has been developing very well for several years now, continued to expand during the year, and demand from the consumer goods industry remained at a high level as well. The upswing in investment activities not only boosts demand from the mechanical engineering sector but also has a positive effect on the construction industry. By contrast, the project activity in the railway infrastructure business segment was less dynamic than in the previous years. The energy sector experienced countervailing trends: while the oil and gas sector showed signs of picking up after two weak years, even in Europe, power plant construction activities were virtually non-existent, as before.

USA/NORTH AMERICA

In North America, the development to date of the business year 2017/18—especially in the United States—has been buffeted by considerable short-term volatilities, even though here, too, economic growth is being supported by an increasing willingness to invest owing not just to the good global economy but also to improved domestic demand. The oil and gas industry, in particular, has exhibited noticeable signs of a recovery in the past twelve months.

Private consumption, the most important pillar of the U.S. economy in recent years, has remained strong, driven in equal measure by solid labor market data and high expectations as to the tax reform that was announced a while ago.

However, hurricanes Harvey and Irma had a negative impact on economic activity in the United States in recent months. On the other hand, the assistance and support programs of about USD 15 billion that the Senate has released should be able to mitigate the fallout over the remainder of the year thanks to positive effects from reconstruction activities and the replacement of destroyed consumer products.

The recovery of the oil and gas industry in the NAFTA region, in particular, generated positive effects for the voestalpine Group in recent months with respect to both manufacturing and earnings, even though this market segment remained unsatisfactory despite strong volume growth. The aerospace industry developed well, albeit at a more volatile pace than in recent years. While the North American automotive market on the whole is experiencing a slight downward trend even though it still remains at a high level, no decline in orders has taken place to date at the voestalpine Group's automotive facilities in the NAFTA region thanks to its focus on the production plants of European manufacturers.

ASIA/CHINA

Following a fairly good start into the year 2017, the Chinese economy lost some of its momentum during the summer—an event that was planned in detail and centrally managed. Aside from the intentional reduction in industrial activities, primarily out of environmental concerns, the momentum in consumption has weakened a bit as well. Chinese exports have dropped significantly in some economic sectors not least due to the anti-dumping measures taken in other economic areas. In turn this has fueled imports, a development that also stems from the appreciation of the Chinese currency with respect to the US dollar. In the aggregate, however, the Chinese economy is still growing at a solid pace.

As far as the voestalpine Group is concerned, for now this development has greater indirect effects in Europe than in China itself. In the past, Chinese manufacturers have repeatedly used significant export volumes to put pressure on international markets, particularly in the steel segment; this finally led to the introduction of anti-dumping duties in the main importing regions, first and foremost the United States and then Europe. The resulting reduction in pressure from Chinese imports has led to a substantial easing of prices in the European steel spot market in the year to date.

As before, market developments in China itself have been positive for the voestalpine Group even in the past six months. Both the automotive industry and the consumer goods sector, both of which are important customer segments for a number of voestalpine's business units, have continued to develop along a favorable trajectory. In contrast to other economic regions in China, the railway infrastructure segment showed continued strong momentum in the first half of 2017/18.

SOUTH AMERICA/BRAZIL

Brazil, the most important economy by far on the South American continent for the voestalpine Group, seems to be experiencing an economic turnaround in 2017 thanks to a slight increase in

domestic consumption and rising exports, yet the economy on the whole still shows very little momentum; so far consumer confidence, in particular, does not seem to have been restored to an adequate level. As before, the continued political instability, the financial weakness of the public sector as well as uncertainties regarding reforms put a damper on the economy, too.
voestalpine's sites in Brazil responded to the multiyear downward trend by taking massive steps to reduce costs and boost efficiency, even making product portfolio adjustments in some areas. As a result, these sites have turned out to be surprisingly crisis resistant, which enabled them to benefit even in recent months from the slight easing of conditions in the economy.

REPORT ON THE FINANCIAL KEY PERFORMANCE INDICATORS OF THE voestalpine GROUP

The largely positive macroeconomic environment translated into a substantial increase in both revenue and earnings for the voestalpine Group. As a result, revenue in the first half of 2017/18 rose from EUR 5,407.8 million in the previous year by 16.5% to EUR 6,302.3 million. Aside from higher product prices, both larger volumes and an improved product mix contributed to this positive development, which was borne along by all four divisions.
The Steel Division, whose performance in the first six months of 2017/18 was very strong, achieved the highest increase in both revenue and earnings, albeit compared to a rather more below-average performance in the first half of 2016/17. While the first two quarters of the previous year were defined not just by a restrained market environment but also by negative non-recurring effects such as the poor technical performance of a blast furnace and start-up losses related to the new HBI plant in Texas, the first half of 2017/18 was characterized by a good volume market and rising prices. Aside from the fact that, in the second quarter of 2017/18, the new HBI plant in Texas had to close for a while due to the environmental fallout of hurricane Harvey even though the facility itself did not suffer any major damage, current earnings are not affected by negative non-recurring effects.
Besides improvements in the market environment, the gains of the High Performance Metals Division in both revenue and earnings also resulted from the successful implementation of the growth strategy in the Value Added Services business segment where, in addition to the pure marketing of high-performance metals, customers are increasingly being offered comprehensive service packages that are aimed, for example, at boosting the performance of finished tools. On the market side, a comparison over time shows that the largest changes occurred in the oil and gas segment which, economically speaking, was at its lowest point 12 months ago and has recovered haltingly but consistently since then.
The trends toward a recovery in this industrial segment also led to an improvement in both revenue and earnings for the Metal Engineering Division. The trend in the railway infrastructure market, however, was to develop in the opposite direction: it has lost considerable momentum in the past few quarters, especially in Europe. In sum, the division succeeded nonetheless in boosting its revenue as well as its earnings at the operating level. EBIT in this division declined due to non-recurring effects of EUR 15 million in impairment losses on property, plant and equipment in the ultra high-strength fine wires product segment —which resulted from the continued challenging market conditions in this niche area.
The Metal Forming Division succeeded in both pursuing its internationalization strategy in the period just ended and boosting revenue as well as earnings—not least thanks to forced accelerations at new production facilities.
The operating result (EBITDA) of the voestalpine Group rose from EUR 704.9 million in the first half of the business year 2016/17 to currently EUR 968.9 million, which corresponds to an increase of 37.5%. In the same period, the profit from operations (EBIT) shot up by 58.4% from EUR 368.9 million in the previous year to EUR 584.2 million in the first half of 2017/18 despite the aforementioned non-recurring impairment losses (EUR –15 million) in the Metal Engineering Division.
Profit before tax improved by 64.9% from EUR 311.4 million in the first six months of the previous year to EUR 513.6 million in the current business year.
Profit after tax climbed simultaneously by 66.4% to EUR 388.9 million (previous year: EUR 233.7 million).
Equity rose to EUR 6,183.8 million as of September 30, 2017, which corresponds to an increase

of 10.2% in the year-on-year comparison and an increase of 2.0% compared with the reporting date (March 31, 2017) of the business year 2016/17.

While the net financial debt of EUR 3,310.3 million as of September 30, 2017, decreased slightly over 12 months (–1.8%), compared with the figure (EUR 3,221.1 million) as of the previous business year's reporting date there has been a slight increase due especially to the dividend distributions of just over EUR 200 million in the second business quarter.

At 53.5%, the gearing ratio (net financial debt in percent of equity) remained stable relative to the end of the business year 2016/17 when it was 53.2%, whereas a substantial improvement was achieved year on year (gearing ratio in the first half of 2016/17: 60.1%).

At a level of EUR 337.9 million, investment expenditures in the first half of 2017/18 fell short of the depreciation threshold for the first time in many years. In a year-over-year comparison, this represents a decline of 28.2% (investment volume, first half of 2016/17: EUR 470.8 million). This decrease does not, however, constitute a turning away from the strategy of value-added growth. Particularly the internationalization strategy with the key markets China and North America as well as ongoing investments in cutting-edge technologies (e.g. the new special steel plant in Kapfenberg, Austria) will be consistently implemented in the future, too. In fact, when considered over a longer period, the successful conclusion of individual, very large investment projects in the recent past—such as the direct reduction plant in Texas, USA, or the new wire rod mill in Donawitz, Austria—necessarily leads to (temporarily) declining investment volumes.

The number of employees in the voestalpine Group continued to rise as well due to the consistent implementation of its growth strategy. As of September 30, 2017, the Group had 50,638 employees (FTE), which corresponds to an increase of 3.8% over the figure for the same period of the previous year (48,786 employees, FTE). Compared with the end of the previous business year (49,703 employees, FTE), this translates into an increase of 1.9%.

COMPARISON OF THE QUARTERLY AND SIX-MONTH FIGURES OF THE voestalpine GROUP

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	2,772.4	3,251.5	2,635.4	3,050.8	5,407.8	6,302.3	16.5
EBITDA	333.9	513.8	371.0	455.1	704.9	968.9	37.5
EBITDA margin	12.0%	15.8%	14.1%	14.9%	13.0%	15.4%	
EBIT	167.6	328.8	201.3	255.4	368.9	584.2	58.4
EBIT margin	6.0%	10.1%	7.6%	8.4%	6.8%	9.3%	
Profit before tax	138.9	292.4	172.5	221.3	311.4	513.6	64.9
Profit after tax[1]	105.8	218.4	127.9	170.5	233.7	388.9	66.4
Employees (full-time equivalent)	48,319	50,047	48,786	50,638	48,786	50,638	3.8

[1] Before deduction of non-controlling interests and interest on hybrid capital.

Net financial debt can be broken down as follows:

NET FINANCIAL DEBT

In millions of euros	09/30/2016	09/30/2017
Financial liabilites, non-current	3,230.8	3,492.6
Financial liabilites, current	1,025.3	1,151.6
Cash and cash equivalents	–488.9	–731.6
Other financial assets	–375.8	–584.9
Loans and other receivables from financing	–21.4	–17.4
Net financial debt	**3,370.0**	**3,310.3**

STEEL DIVISION

QUARTERLY DEVELOPMENT OF THE STEEL 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	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	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	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

printing systems for the additive manufacturing business segment in both Taipei, Taiwan, and Toronto, Canada, the division is pushing this cutting-edge technology not just in Europe but also in Asia and North America. The decision was made at the end of September 2017 to build a brand-new special steel plant in Kapfenberg, Austria, as a replacement for the existing facility. Construction is slated to begin in 2018 and the facility, which will be the most advanced of its kind the world over, is to be brought online in 2021. The preliminary investment will be EUR 330 million to EUR 350 million.

In the Metal Engineering Division, investments during the first six months of 2017/18 were EUR 64.9 million and thus 18.5% higher than the figure for the same period of the previous year (EUR 79.6 million). The fully digitalized, new wire rod mill in Leoben/Donawitz, Austria, which was opened at the end of September 2017, was the division's most prestigious project in the past three years. It was built with an investment of EUR 140 million and is a global technological benchmark. The recent tender award for the construction of continuous casting plant 4 at the same location will make it possible to provide high-quality supplies to the division's units for further processing in the future, too. This investment project of the Metal Engineering Division, which is currently its most extensive, should be completed in the spring of 2019.

Compared with EUR 106.5 million in the same period of the previous year, the investment volume (EUR 104.4 million) of the Metal Forming Division in the first half of 2017/18 is stable. The division's focus on the worldwide roll-out of key technologies for high-strength automotive components is unchanged. As a result, two additional phs-ultraform® and/or phs-directform® facilities went into operation in Cartersville, GA, USA, in the summer of this year. Investments are currently being made in assembly plants in Aguascalientes, Mexico, with the aim of promoting the dynamic development of the Mexican automotive market. Another assembly plant that is being built concurrently in Tianjin, China, will also serve to supply international automotive customers.

BUSINESS TRANSACTIONS WITH ASSOCIATED COMPANIES OR PARTIES

Information regarding business transactions with associated companies and parties is available in the Notes.

RISK MANAGEMENT

Proactive risk management, as it has been understood by and practiced in the voestalpine Group for many years, serves both to ensure the existence of the Group as a going concern in the long term and boost its value and thus is key to the success of the Group overall. As part of the systematic risk management process, which is undertaken groupwide several times a year in uniform fashion, and as part of internal control systems, which are also integral elements of the Group's structural and workflow organization, potential risks are systematically recorded, analyzed, assessed, and subjected to permanent monitoring; appropriate measures to minimize risks are taken as necessary.

The risk environment of the voestalpine Group in the first six months of the current business year as well as compared with the previous years has remained largely unchanged. Material fields of risk (such as the availability of raw materials in the required quantity and quality, the loss of critical production facilities, the loss of critical IT systems, the CO_2 issue, knowledge management, or financial risks) and the respective precautionary measures thus have remained largely the same. The material fields of risk and the respective measures to minimize risk, which are presented and described in detail in the Annual Report 2016/17 of the voestalpine Group (Annual Report 2016/17, "Report on company risk exposure") thus remain valid for this Management Report for the first half of the current business year.

To supplement the explanations in the Management Report for the business year 2016/17 regarding the Austrian energy tax rebate, note that the Federal Finance Court *(Bundesfinanzgericht)* has directed a request for a preliminary ruling to the European Court of Justice (ECJ) (BFG 10.31.2014, RE/5100001/2014). The amendment of the Austrian Energy Tax Rebate Act *(Energieabgabenvergütungsgesetz)* by means of the 2011 Austrian Budget Accompanying Act *(Budgetbegleitgesetz* (BudBG)), which applies to periods after December 31, 2010, limited the energy tax rebate to manufacturing companies. Subsequently, the question as to whether this restriction, which may be deemed state aid, violated European Union law was submitted to the ECJ for a preliminary ruling; the highest court has by now answered the question in the affirmative (ECJ 07.21.2016, docket no. C-493/14, Dilly's Wellnesshotel GmbH). This means that the restrictions envisioned in the Budget Accompanying Act 2011 have not taken effect. Therefore, service providers, in particular, can retroactively apply for the energy tax rebate with respect to periods after February 1, 2011. In its subsequent ruling, the Federal Finance Court declared that the restriction to manufacturing companies did not enter into effect. The Austrian fiscal authorities appealed this decision to the Austrian Higher Administrative Court *(Verwaltungsgerichtshof),* which in September 2017 (decision dated 09.14.2017, EU 2017/0005 and 0006-1) again sought recourse with the ECJ. No adverse impact is anticipated for the voestalpine Group.

Based on the insights gained from the economic and financial crises in the recent past and their effects on the voestalpine Group, in recent years additional—primarily corporate—measures were taken to minimize the Group's risk exposure, which were also described in detail in the Annual Report 2016/17, and these measures have been and are being consistently implemented in the current business year. For example, this entails conducting ongoing analyses of the effects, if any, of the Brexit decision on affected business segments.

The measures that have been put in place to avert or prevent identified risks aim to reduce potential losses and/or minimize the likelihood of losses occurring.

It must be stated that, as of the date of this Management Report for the first half of the current business year, the risk exposure of and resulting uncertainties in the voestalpine Group are limited and manageable and do not threaten the continuation of the Group as a going concern. There are no such threats to the Group in the future, nor are any such risks discernible as of the semi-annual reporting date.

OUTLOOK

Global economic developments in the past few months exhibited a relatively high level of stability along with positive fundamentals overall. In most economic regions, this was—and is—based on private consumption and an increasingly aggressive level of private-sector investment activity. Public-sector investment activity, however, shows a lot less momentum, as before, notwithstanding a few exceptions. The breadth and intensity that the global economic expansion has achieved within just a few quarters is surprising nonetheless. These positive developments are being supported by financial markets which, for the most part, are currently stable and predictable. The fact that, these days, critical political developments have less of an impact on economic activity than in the past—even though this can change at a moment's notice—is what makes the current situation so remarkable.

Geographically speaking, with the exception of the countries of the Middle East as well as portions of Africa and South America, all important economic regions are benefitting from the current upswing; even regions such as Brazil that have been buffeted by crises for years are getting on the growth bandwagon—albeit hesitantly.

A similar yet more differentiated, sector-specific picture emerges for key industries. The automotive industry's performance remains largely positive and thus unchanged worldwide, and the situation in the consumer goods industry is stable, too. Most recently, stronger growth signals even came from the mechanical engineering and construction industries in a number of regions, whereas growth in the conventional energy sector (electrical energy) is increasingly limited to the emerging markets. The next quarters should offer additional upward potential in the oil and gas sector, especially in terms of pricing, unless political resistance makes this more difficult. Developments in the medium term in aircraft construction must be deemed more volatile than before yet still clearly geared toward growth, whereas the railway sector will probably exhibit regionally varying growth perspectives in the near future for political and economic reasons.

As far as raw materials are concerned, there was an easing in the second quarter of the business year when the price fluctuations at the start of the year (some of which had been erratic, especially with respect to iron ore and coal) were supplanted by a much more controlled development of prices—but this may change again during the winter months. The current economic policies of the United States introduce a level of uncertainty into the future of global commerce, even though the past few months have not seen an intensification of the country's position relative to the year's first half.

Against the backdrop of the positive global growth prospects that remain unchanged even at the start of the second half of the business year 2017/18, the substantially positive development in both revenue and earnings that is expected for the business year 2017/18 compared to the previous year, seems to be unchanged secure.