STEEL DIVISION

QUARTERLY DEVELOPMENT OF THE STEEL DIVISION

In millions of euros				Q1–Q3		
	Q1 2019/20 04/01–06/30/2019	Q2 2019/20 07/01–09/30/2019	Q3 2019/20 10/01–12/31/2019	2019/20 04/01–12/31/2019	2018/19 04/01–12/31/2018	Change in %
Revenue	1,182.1	1,139.0	1,098.0	3,419.1	3,590.1	–4.8
EBITDA	150.6	109.9	96.6	357.1	447.9	–20.3
EBITDA margin	12.7%	9.6%	8.8%	10.4%	12.5%	
EBIT	60.8	20.2	–193.1	–112.1	201.0	–155.8
EBIT margin	5.1%	1.8%	–17.6%	–3.3%	5.6%	
Employees (full-time equivalent)	10,730	10,682	10,451	10,451	10,788	–3.1

MARKET ENVIRONMENT AND BUSINESS DEVELOPMENT

Falling steel prices and rising pre-material costs brought about the strong pressure on margins that the European steel industry faced in the first three quarters of the business year 2019/20. The price of iron ore, in particular—which is key to the production of steel in blast furnaces—was both volatile and very high overall. This development stems from significant steps the Chinese government took in 2019 to shore up China's infrastructure and real estate sectors. In turn, these measures led to record levels of crude steel production in the country and, subsequently, to strong growth in the demand for iron ore. At the same time, steel imports into the European market from steel manufacturers located outside of Europe remained high, whereas the demand for steel products continued to decline across the board. As a result, the production of steel in Europe during the calendar year 2019 fell by about 5% year over year.

These developments posed substantial challenges for the Steel Division in the business year 2019/20. Thanks to its focus on quality and the competitive advantage it enjoys on account of its long-term partnerships with customers, the division was able to cushion the price pressures to some extent, but it was deeply exposed to rising raw materials prices on the world market—especially for iron ore. Demand from the all-important automotive industry declined sharply year over year. In the calendar year 2019, German automakers—the division's strongest market—substantially drove down their production volume compared with the previous year. Conditions in the export-oriented European mechanical engineering industry, which had to contend with declining sales due to the intensifying protectionism worldwide, were similar. While both the white goods and consumer goods industry faced a slight dampening of economic sentiment during the current business year, the construction industry presented a much more dynamic picture.
The heavy plate product segment, which is mainly geared to the energy sector, was confronted with extremely difficult market conditions. Low capacity utilization at all relevant heavy plate manufacturers led to fierce competition for the small number of projects in the pipeline segment. The clad plates segment, by contrast, posted much better performance thanks to the high quality requirements its products must satisfy.
Conditions at the Steel Division's direct reduction plant in Corpus Christi, Texas, USA, presented a highly uneven picture in the current business year. While operations at the facility itself went smoothly

during the entire reporting period, market conditions deteriorated substantially over the summer of 2019, due mainly to the rising cost of iron ore pellets and, at the same time, falling steel prices in the important U.S. market. In turn, this intensified the pressure on scrap prices and thus also the product prices for hot briquetted iron (HBI).

FINANCIAL KEY PERFORMANCE INDICATORS

Despite the deterioration in the economic environment overall, the revenue of the Steel Division fell but moderately by 4.8%, from EUR 3,590.1 million in the first three quarters of the business year 2018/19 to EUR 3,419.1 million in the first three quarters of the current business year. This relatively small decline in revenue is due not least to the fact that delivery volumes had already fallen by some 10% in the previous year compared to the business year 2017/18 due to the overhaul of the division's largest blast furnace. Given that the sales volume has remained more or less stable, the lower revenue stems from lower prices. While rising raw materials prices usually lead to higher sales prices, the fact that this has not happened shows how tense the economic environment of the Steel Division has been in the business year 2019/20 to date. In addition to the negative effects from the overhaul of the blast furnace, the previous year's earnings were also affected by provisions related to an investigation by the German Federal Cartel Office *(Bundeskartellamt)* in the heavy plate product segment. EBITDA dropped by 20.3% against this backdrop, from EUR 447.9 million (margin of 12.5%) to EUR 357.1 million (margin of 10.4%). Aside from the operating performance, additional non-recurring effects in the third quarter of the business year 2019/20 put pressure on EBIT in the reporting period as well, specifically, a total of about EUR 200 million in impairment losses on assets. At EUR –112.1 million, EBIT followed a decidedly negative trajectory in the first three quarters of the current business year, whereas EBIT for the same quarters of the previous year stood at EUR 201.0 million despite the comprehensive overhaul of the blast furnace. As a result, the EBIT margin dropped from 5.6% to –3.3% year over year.

The quarter-on-quarter (QoQ) comparison of the second and third quarters of the 2019/20 business year shows a slight decline in revenue by 3.6%, from EUR 1,139.0 million to EUR 1,098.0 million. Slightly higher sales volumes offset slightly lower prices only to some extent. EBITDA fell by 12.1%, from EUR 109.9 million (margin of 9.6%) in the second quarter to EUR 96.6 million (margin of 8.8%) in the third quarter. This was due to the extraordinarily difficult market conditions confronting the HBI plant in Texas during the third quarter. At EUR –193.1 million (margin of –17.6%), EBIT for the third quarter was negative on account of about EUR 200 million in non-recurring effects, as mentioned above. This is in contrast to the EBIT of 20.2 million (margin of 1.8%) that the Steel Division managed to post in the business year's second quarter.

HIGH PERFORMANCE METALS DIVISION

QUARTERLY DEVELOPMENT OF THE HIGH PERFORMANCE METALS DIVISION

In millions of euros				Q 1 – Q 3		
	Q 1 2019/20 04/01–06/30/2019	Q 2 2019/20 07/01–09/30/2019	Q 3 2019/20 10/01–12/31/2019	2019/20 04/01–12/31/2019	2018/19 04/01–12/31/2018	Change in %
Revenue	777.6	723.3	675.5	2,176.4	2,297.3	–5.3
EBITDA	99.2	78.2	6.9	184.3	319.4	–42.3
EBITDA margin	12.8%	10.8%	1.0%	8.5%	13.9%	
EBIT	57.1	35.3	–48.0	44.4	207.5	–78.6
EBIT margin	7.3%	4.9%	–7.1%	2.0%	9.0%	
Employees (full-time equivalent)	14,302	13,837	13,552	13,552	14,443	–6.2

MARKET ENVIRONMENT AND BUSINESS DEVELOPMENT

Notwithstanding the demand from the oil and natural gas industry or the aerospace industry for special materials, the High Performance Metals Division was confronted with a difficult environment in the business year 2019/20, which impacted primarily the tool steel product segment. The automotive industry's focus on investments aimed at alternative drive train designs has come at the expense of the number of new models and thus the industry's demand for tool steel. And the weakening of the consumer goods industry also dampened demand in the reporting period.

Europe

Declining demand alongside intensifying competition were the defining characteristics of the European market during the current business year. Given the protectionist trends in globally relevant trading regions, voestalpine's competitors are increasingly turning their sights on the European domestic market. This has caused significant drops in order levels, especially in Germany. Add to that declining demand for special forgings in the commercial vehicle industry. voestalpine responded to the deteriorating economic environment by undertaking a comprehensive restructuring of Buderus Edelstahl in Wetzlar, Germany. Order levels in the European market for special materials used in the aerospace industry were much better.

North and South America

Declining momentum in tandem with declining investments by the automotive industry created a challenging environment in North America. By contrast, demand from the oil and natural gas industry developed along a positive trajectory for the High Performance Metals Division despite the general market trend toward lower exploration activities. Sales to the aerospace industry were highly satisfactory as well. The fact that the Boeing 737 Max has not been recertified had only minor effects by the end of the calendar year 2019. Boeing has indicated nonetheless that it will not accept any orders for this model in the next few months, thus necessitating capacity adjustments at voestalpine BÖHLER Aerospace in Kapfenberg, Austria.
Brazil's economic environment in the business year 2019/20 to date has been friendly for the most part, due especially to improvements in the economic climate as well as the fact that the weakening of the country's currency benefits export-driven industries. Conditions in Argentina remain difficult due to the ongoing economic and financial crisis.

Asia
While market conditions in China remained unfavorable during the first half of the current business year, the third quarter saw an improvement in economic sentiment and thus a slight easing of conditions. Developments in important sales regions in both Southeast Asia and Japan were largely positive. This clearly shows that voestalpine's local presence, which includes its own distribution centers, facilitates its satisfactory performance in the market—even in the face of volatile economic conditions.

FINANCIAL KEY PERFORMANCE INDICATORS
The key performance indicators (KPIs) of the High Performance Metals Division also reflect the dampening of economic sentiment. Although prices in the current business year have been much higher year over year owing to increases in alloy prices, revenue for the first three quarters of the business year 2019/20 fell by 5.3% to EUR 2,176.4 million (previous year: EUR 2,297.3 million) due primarily to substantially lower delivery volumes. The decline in deliveries accounts for about 20% of the downturn in tool steel, the division's most important product segment. In earnings terms, the downturn was even more pronounced, because the KPIs were impacted by negative non-recurring effects as well. Among other things, the division incurred restructuring expenses in the current business year's third quarter at voestalpine's special steel plant in Wetzlar, Germany, given the significant deterioration in the economic environment. In sum, the High Performance Metals Division posted about EUR 60 million in non-recurring effects for the third quarter of the business year 2019/20, most of which (about EUR 50 million) also lowered EBITDA. As a result, EBITDA for the current business year's first three quarters dropped by 42.3%, from EUR 319.4 million to EUR 184.3 million, thus causing a year-over-year decline in the EBITDA margin from 13.9% to 8.5%. The decline in EBIT during the same period was even more pronounced. It dropped from EUR 207.5 million (margin of 9.0%) to EUR 44.4 million (margin of 2.0%).
The quarter-on-quarter comparison (QoQ) of the second and third quarters of the business year 2019/20 shows that revenue fell by 6.6%, from EUR 723.3 million to EUR 675.5 million, especially due to seasonally lower sales volumes during this period. However, higher raw materials prices pushed prices slightly higher in the third quarter relative to the second quarter. The non-recurring effects in the third quarter of about EUR 50 million with respect to EBITDA and about EUR 60 million with respect to EBIT were key to the difference in earnings between the second and the third quarter. At EUR 6.9 million, EBITDA for the third quarter of the business year 2019/20 is 91.2% lower than that for the second quarter (EUR 78.2 million); at EUR –48.0 million (margin of –7.1%), EBIT for the current reporting period is decidedly negative. In the previous quarter, the division still managed to post EBIT of EUR 35.3 million and thus an EBIT margin of 4.9%.

METAL ENGINEERING DIVISION

QUARTERLY DEVELOPMENT OF THE METAL ENGINEERING DIVISION

In millions of euros

				Q 1 – Q 3		
	Q 1 2019/20 04/01– 06/30/2019	Q 2 2019/20 07/01– 09/30/2019	Q 3 2019/20 10/01– 12/31/2019	2019/20 04/01– 12/31/2019	2018/19 04/01– 12/31/2018	Change in %
Revenue	778.8	758.7	707.6	2,245.1	2,318.7	–3.2
EBITDA	90.0	82.3	56.5	228.8	262.2	–12.7
EBITDA margin	11.6%	10.8%	8.0%	10.2%	11.3%	
EBIT	44.9	31.4	–3.4	72.9	137.4	–46.9
EBIT margin	5.8%	4.1%	–0.5%	3.2%	5.9%	
Employees (full-time equivalent)	13,371	13,369	13,175	13,175	13,377	–1.5

MARKET ENVIRONMENT AND BUSINESS DEVELOPMENT

While demand for railway infrastructure was good, the Metal Engineering Division's Industrial Systems business segment was faced with a difficult market particularly in its wire technology and tubulars product segments.

Railway Systems

In Europe, the Railway Systems business segment met with good demand. In North America, however, the slowdown was palpable. Owing to weaker industrial production, the quantity of goods transported by rail declined a bit after the summer, in turn triggering a slight decline in railway infrastructure investments. By contrast, Asia in general and China in particular saw growing demand, while the Australian market remained more or less stable. Demand in South America's mining regions developed along a largely solid trajectory, whereas activities in South Africa showed little momentum, as before. The turnout systems product segment performed very well on the whole against this backdrop. While the rail technology product segment saw excellent capacity utilization, too, it was confronted with high pre-material costs in the current business year's first half.

Industrial Systems

The wire technology product segment, which produces high-quality wire for the automotive industry, was deeply affected by the slowing momentum in the automotive supplier industry. Reductions in inventories have dominated activities in the past few business quarters across the entire automotive supply chain. Competitive pressures intensified as well because the electric furnace technology enabled producers to benefit now and then from hugely positive developments in the cost of raw materials. voestalpine already reacted to these developments at the start of the business year 2019/20 by cutting operations from four shifts to three.

Strong price pressures in the important U.S. market affected the tubulars segment, which produces seamless tubes for oil and natural gas exploration. The country's protectionist Section 232 tariffs continued to weigh on the division's earnings. Consequently, activities were reduced to three-shift operations after the summer of 2019. In strategic terms, voestalpine has adopted a two-pronged approach to the future. For one, it aims to expand its sales regions in order to reduce its dependence on the United States. For another, it aims to achieve greater product differentiation in order to lessen competitive pressures.

The welding consumables segment developed along a stable, positive trajectory despite the dampening of economic sentiment. A new production site in the U.S. that has already entered the start-up phase will counteract the negative fallout from the country's isolationist stance. Alongside the positive momentum in Asian markets, European markets remained somewhat satisfactory up through the third quarter despite the economic downturn.

FINANCIAL KEY PERFORMANCE INDICATORS

The key performance indicators (KPIs) of the Metal Engineering Division for the first three quarters of the business year 2019/20 reflect its weaker performance year over year. Revenue fell by 3.2%, from EUR 2,318.7 million to EUR 2,245.1 million, due to volume losses despite largely stable prices. But the declines in earnings were more pronounced. While the performance of the Railway Systems business segment even improved, the earnings performance of the Industrial Systems business segment was significantly lower in a very challenging environment. As a result, EBITDA dropped year over year by 12.7%, from EUR 262.2 million to EUR 228.8 million. EBIT plunged in the same period by 46.9%, from EUR 137.4 million to EUR 72.9 million. Add to that negative non-recurring effects that affected the numbers for the current business year's third quarter, lowering EBITDA by EUR 5.0 million. Some EUR 20 million in impairment losses on assets in the tubulars product segment had an additional negative impact on EBIT owing to the changed parameters in the United States. Consequently, the EBITDA margin fell from 11.3% to 10.2% and the EBIT margin from 5.9% to 3.2%.

However, the quarter-on-quarter comparison (QoQ) between the second and third quarters of the business year 2019/20 presents a more differentiated picture. Revenue decreased by 6.7%, from EUR 758.7 million to EUR 707.6 million. Given the customary slowdowns in project activity during the winter months, the Railway Systems business segment, too, was confronted with a slight reduction in its business volume during the third quarter. As far as earnings are concerned, aside from the poorer operating performance of both the Railway Systems and Industrial Systems segments the non-recurring effects mentioned in the year-over-year comparison were also key to the significant downturn. As a result, the official figures pursuant to IFRS show that EBITDA dropped by 31.3%, from EUR 82.3 million (margin of 10.8%) to EUR 56.5 million (margin of 8.0%). The non-recurring effects in the third quarter of the business year 2019/20 had a massive impact on EBIT, causing it to enter negative territory at EUR –3.4 million (margin of –0.5%) compared to the previous quarter (EUR 31.4 million, margin of 4.1%).

METAL FORMING DIVISION

QUARTERLY DEVELOPMENT OF THE METAL FORMING DIVISION

In millions of euros	Q 1 2019/20 04/01– 06/30/2019	Q 2 2019/20 07/01– 09/30/2019	Q 3 2019/20 10/01– 12/31/2019	Q 1 – Q 3 2019/20 04/01– 12/31/2019	Q 1 – Q 3 2018/19 04/01– 12/31/2018	Change in %
Revenue	737.6	715.7	666.7	2,120.0	2,143.4	–1.1
EBITDA	58.4	48.7	31.8	138.9	153.8	–9.7
EBITDA margin	7.9%	6.8%	4.8%	6.6%	7.2%	
EBIT	24.3	13.8	–43.9	–5.8	65.6	–108.8
EBIT margin	3.3%	1.9%	–6.6%	–0.3%	3.1%	
Employees (full-time equivalent)	12,374	12,486	11,748	11,748	11,983	–2.0

MARKET ENVIRONMENT AND BUSINESS DEVELOPMENT

In the business year 2019/20 to date, the Metal Forming Division has faced a dampening of sentiment in the market's key segments and regions. Its two dominating business segments—Automotive Components as well as Tubes & Sections—were affected most by this development. Yet demand has cooled in the Precision Strip segment also. By contrast, high levels of activity continue to characterize the Warehouse & Rack Solutions business segment.

Automotive Components

The downward trend regarding component order call-offs from European plants in the Automotive Components segment has continued in the business year 2019/20 to date. While automotive sales in Europe declined only slightly in 2019 compared to the previous year, the declines in European automotive production were much more pronounced. To some extent, this development stems from increases in the outsourcing of capacities to countries outside of Europe, particularly in connection with SUVs that are in high demand. Accordingly, demand for the products of voestalpine's plants in North America and China remained solid. This was contrasted by substantially higher start-up costs during the reporting period at the plant in Cartersville, Georgia, USA. While measures taken at this facility have boosted its efficiency in the meantime, additional optimization steps will be necessary for it to achieve initially planned targets.

Tubes & Sections

The weakening momentum worldwide in the automotive industry has also had an impact on the Tubes & Sections business segment. Reductions in inventories within the supply chain have depressed sales of safety-related components to the global supplier industry. Both the commercial vehicle and the construction machinery industry in Europe have suffered from weaker demand, whereas the business climate in the continent's late-cycle construction industry has been stable. The U.S. market presents a more dynamic picture overall thanks, in particular, to the storage technology and aerospace industries. In Brazil, a slight recovery is taking hold, albeit from a very low level.

Precision Strip

Thanks to its good market position, the performance of the Precision Strip business segment in an environment characterized by a trend toward declining demand was satisfactory. Following a phase during which orders slowed down, this segment started to regain ground in Europe toward the end of the reporting period. The Chinese market, for its part, stabilized at a slightly lower level, but the market environment in the U.S. has become increasingly difficult due to intensifying protectionism worldwide.

Warehouse & Rack Solutions

The continued trend toward e-commerce provides for an excellent project environment in the market for high-bay warehouses and system racks. Aside from Europe, the U.S. market, where automated storage technology is becoming an increasingly important factor, offers a promising future. Following solid order levels throughout, especially in the third quarter of the business year 2019/20, developments in the Warehouse & Rack Solutions business segment indicate that capacity utilization will be excellent in the coming business quarters.

FINANCIAL KEY PERFORMANCE INDICATORS

Year over year, the revenue of the Metal Forming Division for the first three quarters of the business year 2019/20 fell but slightly by 1.1%, from EUR 2,143.4 million to EUR 2,120.0 million. A more detailed analysis of the division's business segments reveals the underlying dampening of economic sentiment in key segments and regions. For example, Tubes & Sections has had to contend with a substantial decline in sales due to increasingly challenging conditions, whereas Warehouse & Rack Solutions as well as Automotive Components succeeded in posting revenue growth owing to the strong growth in German automotive manufacturers' component order call-offs for new car models being produced at their plants outside of Europe. At voestalpine's plant in Cartersville, Georgia, USA, these complex production processes have led to significant start-up cost overruns. This made it necessary to recognize about EUR 35 million in impairment losses for the current business year's third quarter. Given that such write-offs and/or restructuring expenses were required at other voestalpine facilities as well, EBIT for the current reporting period is affected by a total of approximately EUR 60 million in non-recurring effects; of these, about EUR 20 million also affect EBITDA. Sharply higher start-up expenses at the Cartersville site as well as non-recurring effects from provisions set up on account of external shifts in order activity already impacted earnings in the previous year. EBITDA fell by 9.7% against this backdrop, from EUR 153.8 million (margin of 7.2%) in the first three quarters of the previous business year to EUR 138.9 million (margin of 6.6%) in the same period of the business year 2019/20. At EUR –5.8 million (margin of –0.3%), EBIT for the current reporting period is negative due to the dampening of the business climate as well as the extensive non-recurring effects (previous year: EUR 65.6 million, margin of 3.1%).

The quarter-on-quarter comparison (QoQ) of the second and third quarters of the current business year shows a decline in revenue by 6.8%, from EUR 715.7 million to EUR 666.7 million. All of the Metal Forming Division's business segments had to contend with lower numbers also due to the pronounced seasonality of business toward the year's end. In earnings terms, the aforementioned non-recurring effects in the third quarter (about EUR 60 million based on EBIT, of which about EUR 20 million also affect EBITDA) led to a sharp reduction in the division's performance. EBITDA dropped by more than one-third, from EUR 48.7 million (margin of 6.8%) in the second quarter of the business year 2019/20 to EUR 31.8 million (margin of 4.8%) in the third quarter. During the same period, EBIT fell from EUR 13.8 million to EUR –43.9 million, causing the EBIT margin to drop from 1.9% to –6.6%.