

Report of the Management Board

Management Report 2009/10

This Management Report also constitutes the voestalpine Group Management Report as we make use of the provision of § 267 (4) of the Austrian Commercial Code (UGB) which permits the consolidation of these two reports.

Global economic development

As a consequence of the global economic downturn in the fall of 2008, economic development at the beginning of the business year 2009/10 was characterized by a dramatic slump in demand in almost all of the voestalpine Group's important markets and industries. It was only during the summer of 2009 that the downward trend began to bottom out and the first indications of a turnaround could be perceived in some customer segments.

Whilst growth rates also declined in the emerging economies during 2009 (although still managing to remain positive), the pressure of the slump in the mature economies, especially the USA and Europe, resulted in a fall in global gross domestic product (GDP).

Across the economic regions the incipient recovery varied significantly in terms of extent and speed: Whereas the upward trend which emerged from spring 2009 onwards in the emerging markets (and especially China) was generated by a brisk internal market, stable exports, the rapid lowering of inventory levels and the sustained inflow of capital to these regions, the USA and Europe needed a more substantial economic stimulus program, financed by the public purse and of a dimension hitherto unseen,

in order to initiate a turnaround by investing in infrastructure and specific consumer incentives in certain industries (primarily premiums for purchasing new cars). However, compared to the emerging economies, the turnaround in the mature economies came much later and was much weaker.

In the USA it was mainly the sharp rise in unemployment and the increasing savings rate which had a negative effect on private consumption and consequently on the upswing. In Europe, however, it was primarily the increasing borrowing by individual countries which served as the main obstacle to a sustainable recovery. This also resulted in a significant devaluation of the euro against the US dollar—the euro exchange rate was around USD 1.50 in the fall of 2009 but is currently 15% to 20% below this mark. The austerity programs hurriedly introduced by several European countries over the past weeks will be a test for recovery in Europe. It remains to be seen to which extent they can be compensated for by an increase in exports resulting from the devaluation of the euro.

Developments in the most important customer industries

Development across the customer industries also mirrors the significant variations between the individual regions. The sole shared factor is the, at least partial, restocking of low inventory levels in almost all in-

dustries. Even so, despite the threat of future increases in raw material prices, there is no evidence of stockpiling, which indicates that many companies still reinforce their liquidity management.

Production levels in the automotive industry still are at around 80% of pre-crisis levels. However, after the recovery in the small and compact car segment (the primary beneficiaries of the the previous year's premiums), there was a perceptible increase in demand for mid-sized and large car classes from fall 2009 onwards. One of the trends of the past years has been reversed in that automotive sales in Western Europe are recovering significantly better than in Eastern Europe. The main driver behind the global upswing in this segment remains China. The commercial vehicle industry has been significantly worse hit by the crisis—clear signs of recovery in this segment only emerged towards the end of the business year 2009/10 and capacity utilization is currently only at around 40% of pre-crisis levels.

As a result of both the financial and economic crisis and the fall in oil prices, there were also extensive hold-ups in conventional energy sector projects, bringing massive slumps in demand and falling prices. An incremental recovery, with growing order and price levels, only began here in the spring of 2010. In contrast, developments in the renewable energies sector (especially

solar power and wind energy) were much more positive, largely as a consequence of global public investment programs.

From fall 2009 onwards, the railway infrastructure sector, which had profited from a positive market environment and a strong backlog of orders during the first half of 2009/10, suffered from numerous project postponements (the consequence of increasing budget restrictions, especially in Eastern European countries) as well as a significant increase in competition associated with a significant fall in prices for new tenders.

Developments in the white goods and consumer goods industries were largely unspectacular but continued at a thoroughly satisfactory level. In contrast, demand in the building and building supply industries and the aviation industry remained sluggish. The mechanical engineering industry has started to grow since the beginning of 2010.

Development of the steel industry

Although some economic regions were spared, in 2009 the global financial and economic crisis resulted in an 8.2% drop in steel production worldwide, from 1.33 billion tons to 1.22 billion tons. Whereas China was even able to increase production by a further 13.5% (from 500.3 million tons to 567.8 million tons) to reach a new record high (i.e., now representing almost half of worldwide

steel production), drastic cuts in production were introduced in Europe (-29.7%) and the USA (-36.4%) in response to the huge fall in orders across all customer segments.

The rapid and widespread measures of temporarily shutting down blast furnaces and reducing production led to a fall in production of almost 50% in the European steel industry (EU 27) from October to December 2008 alone. Production remained at this reduced level until the late summer of 2009.

Only in September 2009 did the incipient recovery in demand in key customer segments, primarily the automotive industry, lead to a significant increase in European steel production, from 31.5 million tons (first quarter of the voestalpine business year 2009/10) to 40.8 million tons (third quarter 2009/10). However, the rapid recommissioning of temporarily shut down capacity at the end of 2009 led to short-term competitive pricing, but this was of limited duration as signs of massive increases in raw material prices began to emerge from spring 2010 onwards.

During the last quarter of the business year 2009/10 almost all of the blast furnaces which had been temporarily shut down were recommissioned, and capacity utilization rose to around 85% of pre-crisis levels. In the business year 2009/10, steel production sites belonging to the voestalpine Group enjoyed significantly better capacity utilization levels than the European industry average.

Business development of the voestalpine Group^{1,2}

Due to the extremely challenging economic circumstances, in the business year 2009/10, the voestalpine Group incurred a significant decline in revenue and operating result compared to the previous year; nevertheless, all reporting categories are continuing to show substantial profits.

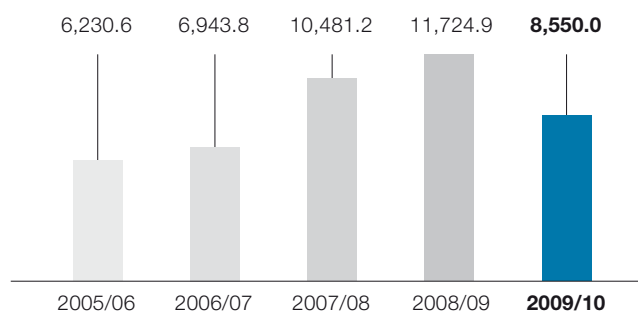
Decline in revenue by 27.1% to EUR 8,550.0 million

The revenues of the voestalpine Group fell in 2009/10 compared to the business year 2008/09 by EUR 3,174.9 million (-27.1%) from EUR 11,724.9 million to EUR 8,550.0 million. With a decrease of EUR 1,229.8 million (-28.4%), the Steel Division reported the greatest drop in absolute figures, as especially the first half of the year was marked by very weak demand and an extremely low price level compared to the same period of 2008/09 that had seen record figures. In relative terms, the Profilform Division was most strongly affected, with revenues that went down by 36.9% from EUR 1,147.1 million to EUR 724.0 million due to a slump in demand, especially in the construction and construction supply industry as well as in the commercial vehicle sector. In the Special Steel Division, low demand in practically all countries and industries during the first half of 2009/10 and a reduction of inventory levels along the entire value chain that continued until the fall of 2009 resulted in substantial declines in both

¹In accordance with IFRS, all figures after application of the purchase price allocation (ppa). For explanatory remarks on the ppa, please refer to the inside cover page of the Annual Report 2007/08. ²Retroactive adjustment in accordance with IFRS 5 in the Automotive Division—Reinclusion of the division's plastics operations and of Amstutz Levin & Cie under continued operations.

Revenue of the voestalpine Group

In millions of euros



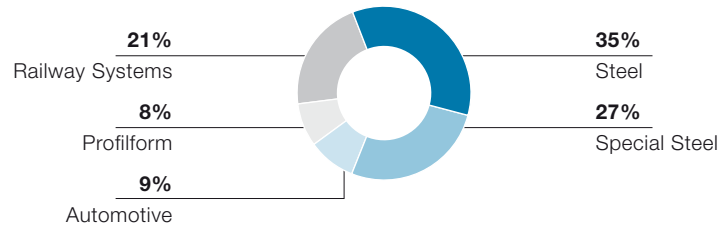
volumes and earnings so that the division recorded revenues of EUR 2,358.4 million that were 33.2% lower than in the previous year (EUR 3,530.6 million). The Railway Systems Division proved to be more resistant to the crisis with a drop in revenue staying within manageable limits at 18.8%, going from EUR 2,351.0 million to EUR 1,908.5 million. This relative stability was due to the very good market environment in the railway infrastructure segment in the first half of the year, as well as the recovery in the wire and seamless tube segments from the second half of 2009/10 on. The Automotive Division had the smallest drop in sales revenue both in absolute and relative figures, with a reduction by EUR 153.2 million (-15.5%) from EUR 988.6 million to EUR 835.4 million, as direct sales to automobile manufacturers remained almost constant

despite the difficult economic environment, thus enabling market share to grow. The lower sales revenue resulted essentially from a decline in deliveries to systems suppliers (Tier 1 customers).

In evaluating the current economic development, a comparison of the quarters with the immediately preceding quarter throughout the year has far more informative value than an overall year-to-year comparison. While a positive trend reversal with regard to results began in the second quarter of 2009/10, the turnaround with regard to revenue—after five consecutive quarters with declining earnings—did not occur until the third quarter of 2009/10. In the fourth quarter of 2009/10, at EUR 2,261.7 million sales increased substantially by 7.4% compared to the quarter immediately preceding it (EUR

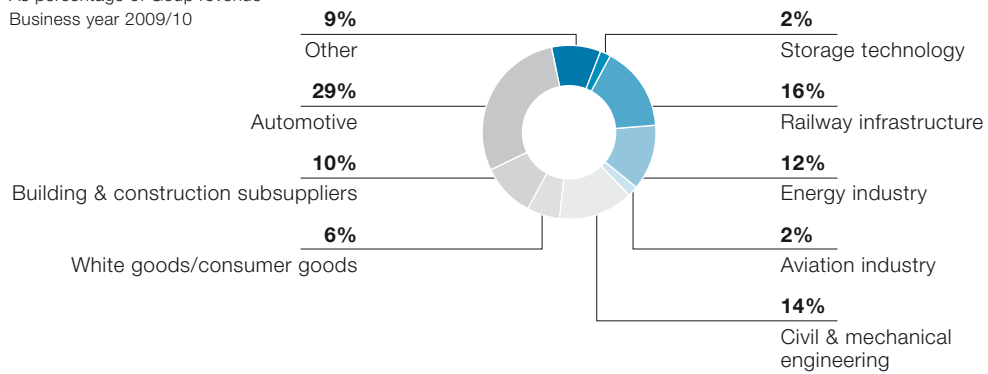
Revenue by divisions

As percentage of Goup revenue
Business year 2009/10



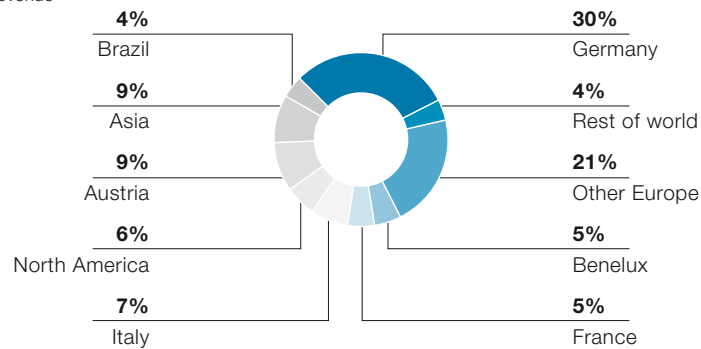
Revenue by industries

As percentage of Goup revenue
Business year 2009/10



Revenue by regions

As percentage of Goup revenue
Business year 2009/10



2,106.6 million). All divisions contributed to the increase in revenue, with the spectrum of variation ranging from +12.9% (Special Steel Division) to +3.7% (Steel Division).

As far as the individual divisions are concerned, starting in the third quarter of 2009/10, the Steel Division profited primarily from the gradual recovery in the automobile industry, thus enabling full utilization of capacity during the second half of the business year, with the exception of a few limitations due to the (scheduled) major overhaul of one of the two small blast furnaces.

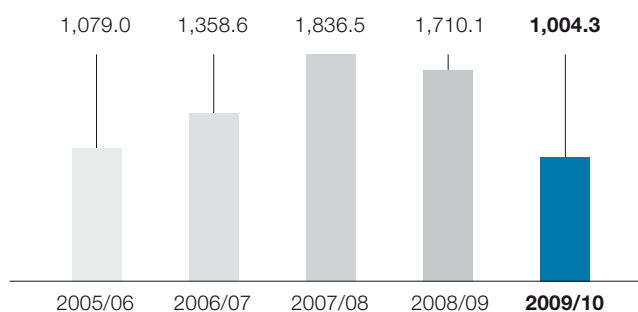
In the Special Steel Division, the increasingly low inventories along the entire value chain, the economic recovery in Asia, and an economic uptrend in South America that was gaining momentum had a positive effect on business performance during the course of the year. As far as individual industries are concerned, the largest growth in demand came from the automobile and consumer goods sectors. From the fall of 2009 on, the Automotive Division profited primarily from the recovery trend in the European mid-sized, executive, and luxury classes, which had previously not benefited in any significant way from the government-initiated incentive programs as compared to the compact car segment. For the Profilform Division, positive development in the logistics segment, strong growth in the solar energy segment, and toward the end of the business year, a slight rise in demand—albeit starting from a very low level—for commercial vehicles were the reasons for increasing revenues in the year-to-year comparison. In the Railway Systems Division, the marked recovery and increasing capacity utilization in the wire and seamless tube segments during the second half of the year were able to compensate for the competition in the rail and turnout segments that grew in intensity toward the end of the business year.

EBITDA decreases by 41.3% to EUR 1,004.3 million

The year-to-year comparison also shows a substantial decline in the profit from operations before depreciation (EBITDA) due to the economic crisis. The decline in revenue in the business year 2009/10 of 27.1% resulted in EBITDA falling in comparison to the previous year by 41.3% from EUR 1,710.1 million to EUR 1,004.3 million. At the same time, it is remarkable that, despite the extremely adverse conditions, the Automotive Division was able to show a rise by 2.2% from EUR 72.2 million to EUR 73.8 million. With a minus of "only" 20.7% from EUR 414.7 million to EUR 329.0 million, the Railway Systems Division again demonstrated its comparatively high degree of stability. As was the case relative to revenue, the Profilform Division was affected most severely here as well, with a plunge by 61.2% from EUR 163.8 million to EUR 63.6 million. In the Special Steel Division, EBITDA went down by 57.9% from EUR 363.3 million to EUR 153.1 million, and in the Steel Division, it dropped by 42.4% from EUR 735.5 million to EUR 423.3 million. This means that despite significant declines, in the business year 2009/10, EBITDA continued to be solidly positive in all the divisions. For the Group overall, the EBITDA margin in the business year 2009/10 amounted to 11.7% (after 14.6% in the previous year). The direct comparison of EBITDA in the first and fourth quarters of 2009/10 makes it abundantly clear how sustained the effectiveness of the Group's comprehensive and consistently implemented crisis management has been. The moderate revenue gain in the same period by 8.0% from EUR 2,093.2 million to EUR 2,261.7 million results in an increase of Group EBITDA by 153.7% from EUR 134.2 million to EUR 340.4 million; this corresponds to a Group EBITDA margin of 15.1% in the fourth quarter of 2009/10.

EBITDA – Profit from operations before depreciation

In millions of euros



With an increase of EUR 99.8 million (+293.5%) from EUR 34.0 million in the first quarter to EUR 133.8 million in the fourth quarter, the Steel Division recorded the highest gain in absolute terms. However, the Special Steel, Profilform, and Automotive Divisions also made considerable contributions to the increase. Viewed individually, EBITDA rose in the Special Steel Division by 530.3% from EUR 12.2 million to EUR 76.9 million, in the Profilform Division by 380.7% from EUR 5.7 million to EUR 27.4 million, and in the Automotive Division by 118.1% from EUR 12.7 million to EUR 27.7 million. Despite the already very high comparable EBITDA figure in the first quarter of EUR 81.4 million, the Railway Systems Division was able to again raise its EBITDA in the fourth quarter 2009/10 by 4.9% to EUR 85.4 million. This disproportionate growth of the operating result in the course of the year makes it impressively clear that all the divisions were successful in significantly lowering their breakeven points.

Profit from operations (EBIT) fell by 64.4% to EUR 352.0 million

In comparison to an operating result (EBIT) of EUR 988.7 million in the business year 2008/09, for the same period of 2009/10, the

voestalpine Group recorded a result that fell to EUR 352.0 million, a reduction by 64.4%. Considering the economic circumstances, however, this is quite a satisfactory result that corresponds to an EBIT margin of 4.1% (after 8.4% in the previous year).

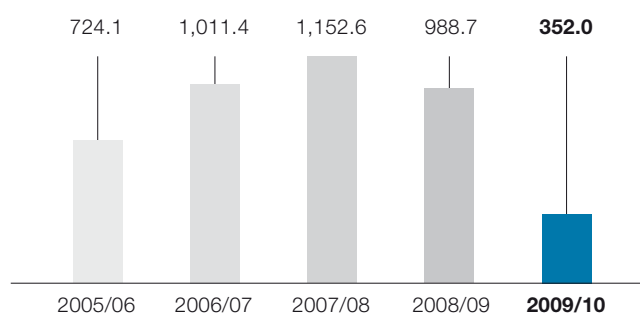
When reviewing the quarters individually, it becomes clear that after a slight loss of EUR 26.3 million in the first quarter of 2009/10, by the second quarter, the Group's EBIT had already returned to the profit zone. This trend has accelerated in the third and fourth quarters with EBIT of EUR 132.4 million and EUR 176.8 million, respectively. By the third quarter, the EBIT margin, which had been -1.3% in first quarter and 3.3% in the second, was at 6.3%, and in the final quarter, it rose to 7.8%.

Profit before tax fell by 73.8% to EUR 183.3 million and profit for the period by 69.5% to EUR 186.8 million

Low interest levels, positive results from investments in securities (as opposed to the previous year), and declining net financial debt resulted in a financial result that went up by EUR 120.1 million compared to the previous year. Despite the positive development of the financial result, due to the

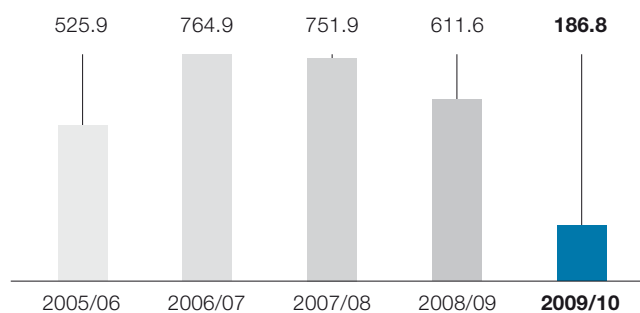
EBIT – Profit from operations

In millions of euros



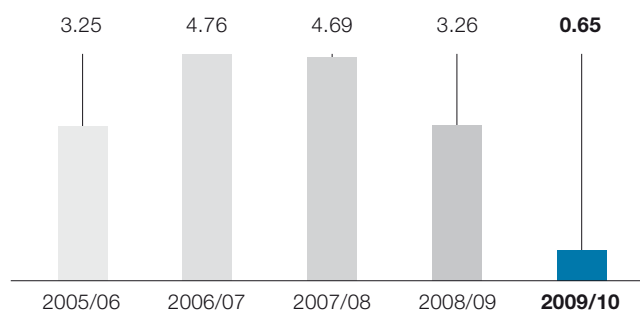
Profit for the period

In millions of euros



EPS – Earnings per share

In euros



declining operating profit, lower profit before tax, which dropped by 73.8% from EUR 700.0 million to EUR 183.3 million, and the reduced profit for the period¹, which fell by 69.5% from EUR 611.6 million to EUR 186.8 million compared to 2008/09, were clearly lower in 2009/10 than last year's figures. Due to the lower pre-tax result and taking the tax deduction items into consideration, the tax rate is -1.9% compared to 12.6% in the previous year.

At EUR 0.65, earnings per share are significantly under the previous year's level

While at EUR -0.05, the earnings per share (EPS) for the first three quarters of 2009/10 were still slightly negative, the fourth quarter with earnings per share of EUR 0.70 brought the earnings per share back to a positive range for the year overall. Therefore, the earnings per share for the business year 2009/10 equal EUR 0.65 (after EUR 3.26 per share in the previous year).

Proposed dividend: EUR 0.50 per share

Subject to the approval of the Annual General Shareholders' Meeting of voestalpine AG, which will take place on July 7,

2010, a dividend of EUR 0.50 per share will be distributed to the shareholders for the business year 2009/10 despite the extremely difficult economic environment. This corresponds to just below half of the previous year's dividend of EUR 1.05 per share or last year's dividend yield of 3.6%. Relative to the average share price of the business year 2009/10 of EUR 22.41, this represents a dividend yield of 2.2%.

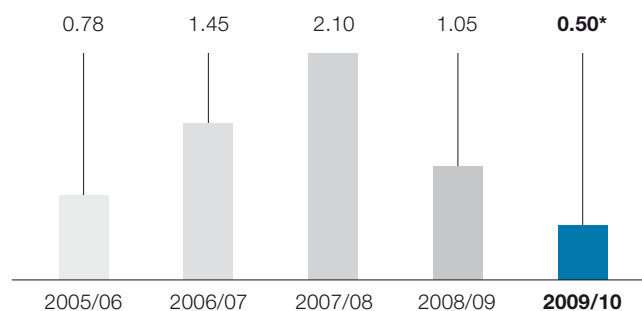
Substantial reduction of the gearing ratio to 71.3%

Although equity capital remained unchanged in the past business year at EUR 4,262.4 million compared to the end of the business year 2008/09 (EUR 4,262.5 million), the voestalpine Group was able to reduce its gearing ratio by about 17 percentage points. The reason for this improvement is a massive reduction of net financial debt in the past 12 months, which was made possible by investment expenditure that was lower than depreciation and working capital that was reduced compared to March 31, 2009, from EUR 2,450.1 million to EUR 1,648.2 million or by 32.7%. Thus, as of March 31, 2010, the voestalpine Group's

Dividend per share

In euros

* As proposed to the Annual General Shareholders' Meeting.



¹ Before minority interests and interest on hybrid capital.

gearing ratio (net financial debt as a percentage of equity) was 71.3%. Reduction of the gearing ratio compared to that of March 31, 2008, (88.2%) reflects the Group's strong self-financing capability and its consistent liquidity management despite the challenging economic circumstances and a dividend policy that has been consistently applied.

Cash flow shows the high self-financing capability of the voestalpine Group

Despite a profit for the period that was down significantly (from EUR 611.6 million to EUR 186.8 million) in the business year 2009/10, due to a substantial release of liquidity from working capital, the cash flow from operating activities increased by 18.3% from EUR 1,357.9 million to EUR 1,606.1 million. The cash flow from investment activities reflects the investment and acquisition policy that has been adjusted to the conditions brought on by the economic crisis. Without changes in financial assets, it went down from EUR –1,311.1 million to EUR –586.9 million so that there is a free cash flow of EUR 1,019.2 million for the business year 2009/10. Taking the changes in financial assets into consideration, the

cash flow from investing activities declined from EUR –1,249.4 million to EUR –914.5 million.

Cash flow from financing activities turned from EUR 413.4 million in the previous year to EUR –539.6 million in the business year 2009/10. This was primarily due to the repayment of financial liabilities in the amount of EUR 289.3 million as compared to borrowings in the amount of EUR 715.5 million in the previous year.

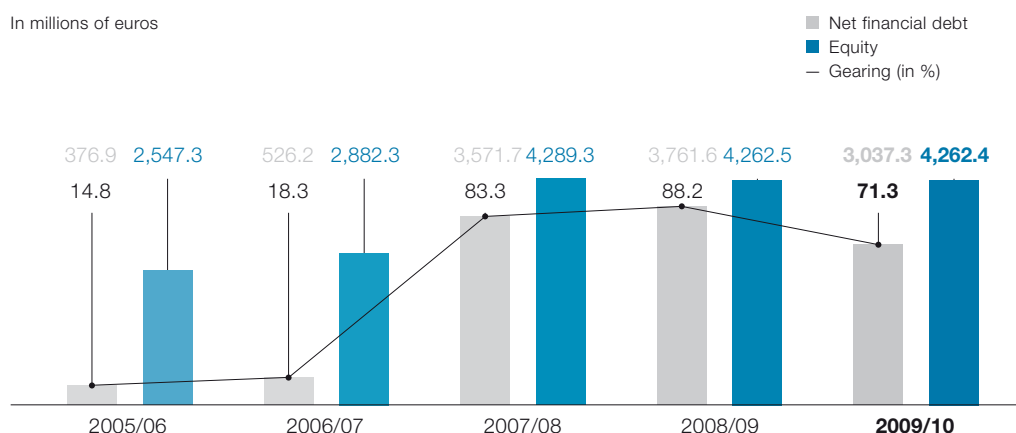
Against this backdrop, cash and cash equivalents were increased in the business year 2009/10 by another EUR 170.9 million (including net exchange differences) from EUR 857.7 million to EUR 1,028.6 million.

Crude steel production down by 10.9% to 6.07 million tons

The Group's crude steel production in the business year 2009/10 was 6.07 million tons, 10.9% below the previous year's figure (6.81 million tons). Therefore, with a production output of 4.36 million tons, the Steel Division saw a decline by 5.0%, while the Railway Systems Division had a production

Net financial debt – Equity – Gearing ratio

In millions of euros



output of 1.20 million tons, which corresponds to a decrease by 18.4%. The Special Steel Division reported the greatest cutback in crude steel production from 0.75 million tons to 0.51 million tons or by 32.0%.

Comparison of quarterly figures during the business year

The table below provides an overview of the development of key financial figures over the four quarters of the business year 2009/10:

Quarterly development of the voestalpine Group

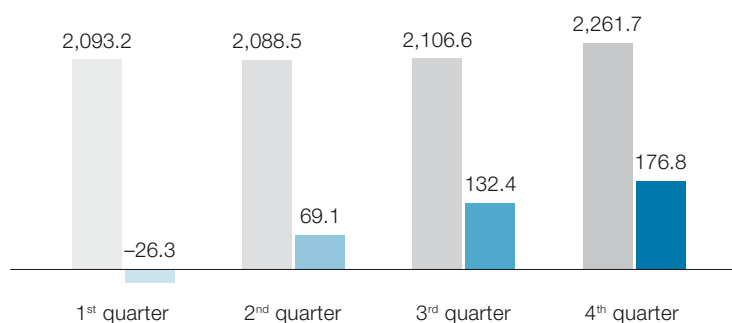
| | 1 st quarter 2009/10 | 2 nd quarter 2009/10 | 3 rd quarter 2009/10 | 4 th quarter 2009/10 | BY 2009/10 |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|---------------|
| Revenue | 2,093.2 | 2,088.5 | 2,106.6 | 2,261.7 | 8,550.0 |
| EBITDA | 134.2 | 232.6 | 297.1 | 340.4 | 1,004.3 |
| EBITDA margin | 6.4% | 11.1% | 14.1% | 15.1% | 11.7% |
| EBIT | -26.3 | 69.1 | 132.4 | 176.8 | 352.0 |
| EBIT margin | -1.3% | 3.3% | 6.3% | 7.8% | 4.1% |
| Profit before tax (EBT) | -70.1 | 27.8 | 89.8 | 135.8 | 183.3 |
| Profit for the period | -48.2 | 28.4 | 71.5 | 135.1 | 186.8 |
| Employees (excl. temporary personnel and apprentices) | 40,801 | 39,919 | 39,404 | 39,406 | 39,406 |

In millions of euros

Quarterly development of the voestalpine Group

In millions of euros
Business year 2009/10

■ Revenue
■ EBIT



Acquisitions and divestments

Acquisitions

In the business year 2009/10, the voestalpine Group did not make any acquisitions; instead, against the backdrop of the economic crisis, it focused on streamlining and consolidation of its portfolio of companies.

Divestments

In the Automotive Division, the sale of the Italian company Euroweld S.r.l., which is active in the production of laser-welded blanks, as well as the closure of the British site St. Helens, which had been part of the plastics segment of the voestalpine Polynorm Group, were completed as of April 1, 2009. *(As these divestments occurred at the very beginning of the business year, we refer to the quarterly reports 2009/10 for further details.)*

The efforts to sell the two remaining companies in the plastics segment of the Automotive Division in the Netherlands as well as the French company Amstutz Levin & Cie have not yet been successful due to the difficult economic and financial circumstances. These companies, which had previously been recorded under discontinued operations, were therefore again included under continuing operations in the business year 2009/10 and were undergoing a reinforced restructuring process.

Investments

The investments of the *voestalpine Group* in the business year 2009/10 came to *EUR 542.5 million*. Of the total investments, *EUR 524.9 million* were attributable to tangible fixed assets, *EUR 14.7 million* to intangible assets, and *EUR 2.9 million* to equity holdings.

The reduction of the Group's investment volume by half compared with the previous year (*EUR 1,078.9 million*) and the relatively uniform reduction in each of the five divisions are the result of the swift and determined liquidity and cost management immediately after the outbreak of the crisis in the fall of 2008. In this respect, the Company had started to comprehensively re-dimension the originally planned investment projects already during the second half of 2008/09, focusing exclusively on strategically important investments to secure the long-term technology and quality leadership. In the business year 2009/10, this policy of restraint towards investments was applied with even greater determination. As a result, the investments both on corporate level and in all divisions fell clearly below the level of depreciations.

The only exception is the *Steel Division* whose investment expenses were still slightly higher than the depreciations. Essentially, this is because important projects within the framework of the investment programs "*Linz 2010, second phase*" and "*L6*", where considerable progress

had already been made, were still undergoing completion during the course of the business year 2009/10. However, the initiation of new projects was extremely restricted.

The Steel Division reported investments of *EUR 240.8 million* in the business year 2009/10, accounting for 44.4% of the total corporate volume of investments. Although the investment activities of the division decreased by almost half, namely 46.1%, over the previous year (*EUR 446.9 million*), a number of strategically important projects was nevertheless completed or successfully commissioned. In addition to the implementation of the hot-dip galvanizing plant 5 as the last pending project under the "*Linz 2010, second phase*" program, the investment activities concentrated on the continued implementation of the follow-up project "*L6*", which also concerns the site in Linz. The focus was on the increase of the crucible capacity in the steel mill (successfully completed), the replacement of the finishing stand in the wide strip mill (implementation in progress, completion scheduled for the business year 2011/12) and the commissioning of a new block in the Company's own power plant in April 2010 (block 7 with an output of 165 MW).

With the major investment programs "*Linz 2010*" (two phases), "*L6*" and ongoing investment activities, the *voestalpine Group* invested more than *EUR 3 billion* in the

modernization and the development of the steel site in Linz.

The *Special Steel Division*, which accounted for 33.8% of the total corporate investments in 2009/10, reduced its expenditures by one third over the previous year, namely from EUR 275.9 million to *EUR 183.3 million*. Again, this reduction is attributable to a very restrictive investment policy as well as the extension of the implementation schedules of already initiated expansion and modernization projects in Kapfenberg (Austria), Hagfors (Sweden) and Wetzlar (Germany). With the *capacity increase in the forging and steel mill area*, the Special Steel Division will complete the last part of a multiannual expansion program in the business year 2010/11. Projects in the course of implementation concern primarily a new axial forging machine in Kapfenberg, a new forging press in Wetzlar and a corresponding machine in Hagfors. In spite of this ambitious program, the investments of the Special Steel Division in the new business year will again fall well short of the depreciations.

The investments of the *Railway Systems Division* amounted to *EUR 71.9 million*, accounting for 13.3% of the total expenses of the voestalpine Group. With a decrease of 70.3% over the previous year (EUR 242.3 million), the reduction of investments in this division exceeded that of the other divisions by a wide margin. However, it should be added that the figure for the preceding pe-

riod had been exceptionally high because of the previous large-scale investment program implemented by the division during several years, mainly at the Donawitz site. During the year under review, the following major projects were implemented: in the steel production section, the installation of a *new vacuum degassing unit* to eliminate the bottleneck at the degasification capacity and the *enclosure and dust removal system for the slag area*; in the manganese foundry of the turnout technology segment, an investment concerned a fully automated series production facility for manganese frogs in France; and in rail production the commissioning of a *new sawing line* led to a considerable capacity increase in Donawitz.

The Profilform and Automotive Divisions only accounted for approximately 4% of the corporate investments during the business year under review. In detail, the investment volume of the *Profilform Division* amounted to *EUR 19.3 million*, representing a 58.8% decrease over the previous year (EUR 46.9 million). The *Automotive Division* invested *EUR 22.5 million*, reducing its outlay by 55.8% compared with the previous year (EUR 50.9 million). The lack of large site-specific investment programs and the considerably higher contract and project dependence of investment decisions compared to the Group's other divisions explain the almost identical development of investments in these divisions.

Employees

As of March 31, 2010, the *voestalpine Group* had 39,406 employees (excluding apprentices and temporary personnel). Compared to the end of the business year 2008/09, this corresponds to a reduction due to the economic crisis of 6.0% or 2,509 employees. In comparison to the employee numbers prior to the crisis (September 30, 2008), this represents a decline by 3,627 employees or 8.4%.

The proportion of Austrian to "international" employees has remained constant: The majority (20,788 employees or 53%) was working at locations outside of Austria, while 18,618 employees were working in Austrian companies.

Furthermore, as of the end of the business year 2009/10, the *voestalpine Group* was training 1,472 apprentices. At 32.0%, already nearly a third (471 apprentices) are being trained at international sites compared to 68.0% (1,001 apprentices) in Austria. The number of Group-wide apprentices has thus remained almost constant—at a very high level—as compared to the previous year (1,506), declining by a mere 2.3% or 34 apprentices.

Human resources management in the business year 2009/10

The dimension of the global economic crisis and the speed with which it escalated have posed great challenges to human resources management during the last two business years. By not only quickly recognizing and assessing the crisis, but also by consistently and comprehensively implementing numerous human resources strategies, the *voestalpine Group* was able to navigate this most difficult economic period since the post-war years in such a way that the effects on the Company's employees have remained comparatively manageable. At the same time, this experience has taught some lessons regarding human resources management so that the Group overall and the HR sector in particular can become more flexible, leaner, and more efficient in their reaction to the increasing volatility of the markets. In addition to continuing to develop new working time models, this includes a greater utilization of temporary workers.

The crisis response in the *voestalpine Group* consisted of a number of short- and medium-

term measures that depended on the requirements of the individual company and the legal and country-specific parameters. These included reduced working hours, consumption of remaining vacation days and compensatory time credit, introduction of new working time models, development of social plans for employees willing to voluntarily give up their jobs and employees who were close to retirement age, as well as more opportunities for educational leave.

Although these measures proved to be effective overall and prevented broadly based layoffs, nevertheless the staff had to be reduced in the business year 2009/10 by a total of 2,509 *core employees* (641 salaried employees and 1,868 workers), of whom 46% were in Austria. At the height of implementation of reduced working hours in June 2009, almost one third of the staff was affected; since the fall of 2009, the employment situation has eased to the extent that it was possible to cut back the number of employees still working reduced hours by the end of the business year 2009/10 to only 1,460 employees (this corresponds to 3.7% of the Company's workforce).

The number of *temporary employees* rose compared to the previous year by 26.8% (from 2,327 to 2,951 person-years), however, it is still 1,198 person-years under the highest figure at the beginning of the crisis in the fall of 2008.

Stahlstiftung (Austria)

The Stahlstiftung ("steel foundation"), which was founded in 1987, provides employees who are leaving the Company with the opportunity to complete training or continuing education programs for a period of up to four years, acquiring new occupational skills or improving qualifications, for example, final apprenticeship examinations, classes and courses of study, studies at vocational secondary schools, universities of applied sciences, or universities. In addition to cushioning the social impact of layoffs due to the economic environment, this organization also helps those affected to look for new jobs.

The Stahlstiftung can be utilized by employees of almost all Group companies located in Austria (who currently make up two thirds of the participants), as well as employees from about 70 external member

companies from outside the Group; it is funded by solidarity contributions by the employees of the member companies. Since its establishment, this organization has achieved an average placement rate of 93%. Even in the extremely tough, crisis-stricken job market of the past business year, the Stahlstiftung has been able to successfully integrate 85% of the job seekers into the job market.

As of March 31, 2010, 884 persons were being assisted by this organization; due to the crisis, the number had doubled from the previous year.

Educational leave (Austria)

As of the end of the business year 2009/10, 611 employees of Austrian Group companies (this corresponds to a five-fold increase compared to the previous year) had taken advantage of educational leave opportunities. This model enables employees to participate in government-subsidized training and continuing education for a period of three to twelve months and is largely funded by the Stahlstiftung. After the end of the leave, employees are guaranteed a job with their employer. The participants of the educational leave model are predominantly internal voestalpine employees (94%), with

most of them coming from the Steel and the Special Steel Divisions.

Employee shareholding scheme

The expansion of the employee shareholding scheme of voestalpine AG beyond the Austrian borders is being consistently implemented. The international employee shareholding model, which was developed in the previous year, was successfully implemented during the business year 2009/10 in individual British and German Group companies. The inclusion of additional companies is being planned for the current business year 2010/11.

As of March 31, 2010, 20,578 active Group employees hold about 20.9 million voestalpine AG shares within the scope of the employee shareholding scheme. These shares, as well as another 1.5 million private shares held by both former and active employees, are being managed by the voestalpine Mitarbeiterbeteiligung Privatstiftung.

As of the end of the business year 2009/10, a total of 13.3% of the voestalpine AG shares were held by *employees*.

Raw materials

On the raw materials markets, the business year 2009/10 was characterized by two completely opposing developments. While in the first half of the 2009 calendar year the short-term prices for iron ore, coking coal, and scrap fell by about two thirds compared to the peak prices in mid-2008, subsequently, the situation was reversed very rapidly. Beginning in the summer of 2009, the European steel industry was starting to come out of the economic trough. In the following months, production was quickly resumed in plants that had been temporarily shut down, resulting in a sharp ramp-up of production. Together with the economic uptrend in China that began in the first half of 2009, by the end of the year, this had resulted in price increases on the spot market for iron ore, coking coal, and scrap of up to 50%. Another massive rise in the short-term raw materials prices occurred in the last three months of the business year 2009/10, again with increases of up to 70%. Due to the severe discrepancy between the price level on the spot market and that of the annual contracts (benchmark prices) that arose from this development, the major mine operators demanded an enormous increase of the annual prices to be negotiated for April 1, 2010, and even called the practice of entering into annual contracts into question.

As a result, the benchmark system, which had been the norm for iron ore and coking coal for the last several decades, was indeed subsequently abandoned. Although long-term supply agreements are still being en-

tered into relative to quantities, with regard to prices, most of the mine operators are now only prepared to sign quarterly agreements (on an index basis).

With respect to the supply situation in the voestalpine Group, it can be generally stated that supply of all necessary raw materials was assured for all locations and at all times throughout the business year 2009/10. This is a result of the Group's procurement strategy that has been pursued consistently for many years; its core is a comparatively broad supplier portfolio, particularly with regard to coal and ore, thus avoiding one-sided dependency on individual mining operators. Furthermore, the strategy includes the accelerated expansion of domestic supply sources for ore, which are currently at 20%.

In the future, the voestalpine Group will have a somewhat lower volatility of volume in comparison to other steel manufacturers due to its comparatively broad supply base, but because of the departure from the annual price system, the Group will not be able to avoid adjustments of the contractual terms at the customer end, if only for risk policy considerations alone.

The voestalpine Group is optimistic that it will be possible to pass on the soaring raw materials prices to the market within a foreseeable period of time and, against the backdrop of the new framework conditions, to achieve a sustainable pricing model vis-à-vis our customers.

Environment

In the business year 2009/10, the *environment-related investments* of the voestalpine Group at just its Austrian sites came to about *EUR 48 million*, thus remaining at the high level of the previous year (EUR 49 million) despite the economic crisis. Due to declining production numbers, however, the current *expenses for the operation and maintenance* of environmental protection facilities, which had been at EUR 225 million for Austria in the previous business year, dropped to *EUR 193 million* in 2009/10. This results largely from somewhat lower operating expenses for environmental facilities and reduced disposal costs for production-related waste.

From today's perspective, the financial burden for the *purchase of CO₂ certificates* in the second trading period (2008–2012) will come to about *EUR 50 million*. The voestalpine Group already ensured the necessary number of certificates and has already purchased about half of them. The remainder will be purchased by the end of the second trading period.

Focal points of environmental measures

Despite the difficult economic circumstances, additional improvements in the areas of energy and raw materials efficiency, air and water emissions, and waste prevention were carried out at a number of Group locations in 2009/10. For example, the focus at the metallurgical plant site in Linz was two-fold:

continuing reduction of dust emissions in the blast furnace area and further optimization of the plant's already very high degree of energy efficiency. Due to the start-up of operations of a new power plant block, utilization of gases generated in the production process can be improved even further for use in the self-generation of electricity that is currently at 90%; furthermore, by deploying state-of-the-art technologies, it is possible to achieve a further significant reduction of NO_x emissions.

By implementing appropriate technical measures, emissions of site-specific harmful substances were substantially reduced at the Group's Traisen and Kapfenberg locations in Austria, as well as at the Special Steel Division's production companies in Sweden, Germany, and Brazil.

As is the case at the Group's largest location in Linz, an improvement of energy efficiency is also a primary focus of environmental activities at the Donawitz metallurgical plant, where a new power plant unit was put into operation in October 2009. Additionally a new water supply and wastewater disposal concept has been implemented, which has brought considerable improvements with regard to environmental protection and energy recovery.

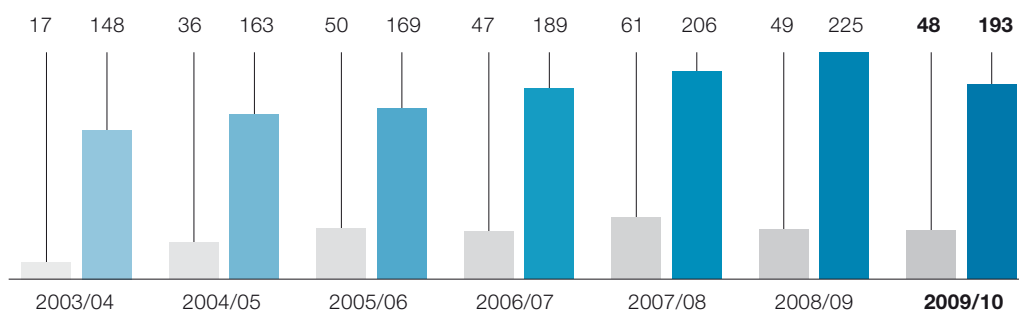
Awards for the voestalpine Group's high standards

The Group's environmental standards, which put it among the leaders in the field by international benchmarks, were again

Environmental expenditures

In millions of euros
Based on Austrian locations

■ Environmental investments
■ Operating environmental expenses



honored in the business year 2009/10 with a number of awards. To name just two examples, the lime works in Steyrling was awarded the Sustainability Prize 2010 by "Forum Rohstoffe" and the World Wildlife Fund (WWF) for changing to environmentally friendly mining practices, and VAE Eisenbahnsysteme GmbH received the European EMAS Award 2009 for green procurement in the category of "large corporations." It should be noted that this Group company, whose 2009 National EMAS Award was its fourth, was the first Austrian company ever to receive this European award.

International thematic focal points

The setting of a future direction for a global CO₂ regime that had been announced for December 2009 within the scope of the UN Climate Conference in Copenhagen has failed and has been postponed to the next conference at the end of 2010 in Cancún, Mexico. This means the state of uncertainty concerning the regulatory framework will continue so that reliable planning for investments in the European Union is impossible for many industrial companies.

The benchmark system for the European steel industry originally developed by voestalpine Group to achieve long-term reduction of CO₂ emissions on a fair and standardized basis has now been recommended by the European steel association EUROFER and its member companies and is currently being negotiated with the European Commission. The basis for this benchmark system is a comprehensive collection of data regarding all plants and facilities of the European steel industry that will be affected by CO₂ certificate trading from 2013 on.

Currently, the EU *IPPC Guideline* (Integrated Pollution Prevention and Control Directive), which was adopted in 1996, is being revised. A particular focus is a Europe-wide stan-

dardization of threshold values for industrial facilities, which will also be codified in the Reference Documents of the European Commission's Best Available Techniques in the iron and steel industry. In the future, these threshold values may be adapted to local circumstances only with the European Commission's approval and solely in justified exceptional cases.

On June 1, 2007, the EU chemicals regulation *REACH* became effective; its effects have already been described in detail in the previous annual reports. With regard to the implementation of these requirements within the voestalpine Group, we therefore refer to the quarterly reports on the business year 2009/10.

Information technology

The difficult overall economic situation was also a particular challenge for the information technology segment with its comprehensive integration into the Group's business and production processes. Activities around the variabilization of IT costs, which have been stepped up in the last few years, have made an important contribution, especially in these economically challenging phases. This has made it possible to reduce IT expenses in the last business year alone by 12.6%.

Despite consistent management of investments and costs in the individual Group companies, strategically and structurally important projects have been pursued, with some already being completed. The projects have included the following:

- Within the scope of the "Future" project (*Steel Division*), processes, many of which have been recently developed, and the control functions that are applied throughout the division are being mapped on the basis of a new and fully integrated IT architecture. This new IT landscape will be implemented beginning with the business year 2011/12.
- The technical integration of the companies of the *Special Steel Division*, acquired in 2007, into the IT structure of the Group

as a whole has been largely completed. Currently, as a result of Group-wide re-organizational measures, system relocations/separations are being carried out.

- The "Genesis" project (*Railway Systems Division*) is ensuring an integrated quantity and value flow along the division's value chain. The new system structure is already being implemented in rail production as of the beginning of the business year 2010/11; implementation for the steel mill and wire production is planned for late 2010/11.
- Experience gained from the "business process integration" project (*Profilform Division*)—highly integrated sales and production planning systems that are being deployed at the Austrian site in Krems—is providing a starting point for a launch at other (including international) divisional locations.
- The new IT target architecture of the *Automotive Division* is being consistently implemented on the basis of the current structure of the business units.

Moreover, in the business year 2009/10, the Group's IT service company, voestalpine group IT GmbH, brought in a strategic partner for the operation of IT services and data centers. This step will ensure additional flexibility in providing these services.

Research and development

Development of R&D key figures

Despite the economic crisis, the *voestalpine Group's expenses* for research and development remained at a very high level. The *R&D budget*, which was at *EUR 111.9 million* for the past business year (thus precisely corresponding to the actual 2008/09 figure, the absolute record thus far), was not completely exhausted due to this sector's ongoing efficiency gains so that at *EUR 108.8 million*, the *actual R&D expenses* represented a slight decline by 2.8%. The estimated R&D expenses for the current business year amount to EUR 111 million; this means that after increasing its innovation expenses four-fold in the last ten years, the *voestalpine Group* has kept them at the all-time high for already three consecutive years, even after the onset of the economic crisis.

The development of the *research ratio* (R&D expenses to total revenue) should also be highlighted. This key figure *went up* in the past business year from 0.96% to 1.27%, while the *R&D coefficient* (expenses measured by added value) *rose* just as significantly from 2.58% to 3.42%.

voestalpine patents again up

The trend with regard to *patents* was equally gratifying: Running against the worldwide declining number of new patent registrations in the 2009 calendar year due to the economic crisis¹ (globally by more than 4%, in Europe by more than 8%), the *voestalpine Group* was even able to further increase the number of its patents. Despite comprehensive streamlining of the patent portfolio by about 260 proprietary/patent rights, the total number rose in the past year by roughly 200 or about 6% to 3,470 patents (applied for and granted).

Expansion of the R&D network

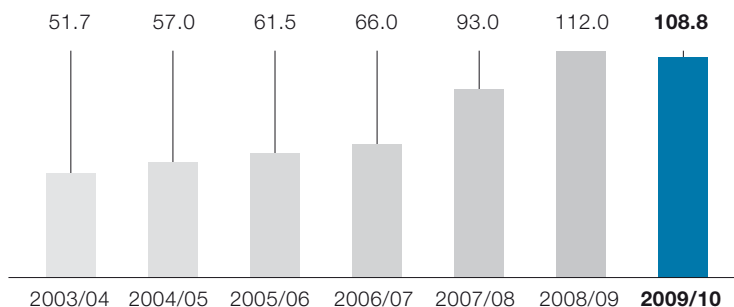
International technology and quality leadership in sophisticated and high quality sectors requires a foundation based on intensive (application-oriented) fundamental research. As the most research-intensive domestic industrial corporation, *voestalpine* is also an important industrial partner—far beyond the borders of Austria—of 80 uni-

¹ Sources: national and international patent offices.

Research expenses for the voestalpine Group

In millions of euros

R&D gross expenses (without R&D installation investments)



versities and university research institutes. Furthermore, the Group is a participant in ten projects of the Austrian COMET competency center program and 15 Christian Doppler laboratories.

By way of their cooperation with the voestalpine Group, university R&D partners receive more than 10% of the voestalpine research and development budget.

Focal points of our R&D strategy

Sustainable innovation leadership is based not only on focusing the Group's research activities on ongoing product and process improvements, but identifying very long-term, global developments at as early a stage as possible, analyzing them, and translating them into concrete focal areas of activity. The long-term R&D focus is particularly on materials-relevant aspects of the energy, mobility, and resources sectors, which were already at the center of our research and development activities during the business year 2009/10. For example, development of components made of innovative high-

temperature materials, as well as special applications for the solar energy, wind power, and thermal energy generation sector have been driven forward.

A crucial aspect of our competitiveness is the cross-divisional, consistent collaboration across the entire Group that comprises not only materials competence, but key know-how in processing techniques, including the bonding of materials, for example, through newly developed welding technologies.

- *For details on those innovations that were successfully realized in the past year (for example, new lightweight construction technologies for automobile construction or continuing optimization of high-quality high-speed switches), we refer to the detailed information contained in the quarterly reports on the business year 2009/10.*

Risk management

voestalpine AG first established risk policy guidelines for the Group around 10 years ago. The risk management system, which has been in place since the business year 2000/01 in the form of operating procedures for the entire Group, serves both to secure the long-term existence of the Company and to increase its value, and is thus a key factor in the success of the Company.

In accordance with the Austrian Company Law Amendment Act (*Unternehmensrechtsänderungsgesetz*), an Audit Committee has been established within voestalpine AG which continuously deals with, amongst others, matters concerning risk management and the internal control system (ICS). Both risk management and the ICS are integral components of the existing management systems within the voestalpine Group. The Internal Audit department is an independent internal company unit which monitors operating and business processes as well as the ICS, and has full discretion when reporting and assessing audit results.

Risk management covers both strategic and operative levels and is therefore a significant element in enduring success. Strategic risk management serves to evaluate and safeguard strategic planning for the future. Strategies are examined to ensure conformity with systems of objectives in order to guarantee growth in value through the optimum allocation of resources. Operative risk management is based on a revolving procedure run at least once a year. The

identified risks are evaluated according to an evaluation matrix which judges potential loss and probability of occurrence. Essentially it is the operational, environmental, technological, financial and IT risks which are documented, and this process is supported by a special web-based IT system.

Measures taken within the voestalpine Group to avoid, minimize and transfer risk include:

- **Raw materials availability and price hedging**

For several years the Company has followed a procurement strategy targeted at establishing close and long-term relationships with suppliers, the expansion of the supplier portfolio and increased self-sufficiency. In view of the increased volatility expected in the raw materials markets, these objectives will become increasingly important. As a result of this focused approach, when increasing shortfalls in supply emerged worldwide, the Group was continually able to secure sufficient supplies of all necessary raw materials right through to the end of the business year 2009/10.

Due to the extensive withdrawal from traditional benchmark systems (see "Raw materials" section), corresponding adaptations of contracts are currently negotiated with the Group's customers, in order to accommodate changes in general conditions, especially in terms of risk factors.

In order to evaluate the risks arising from the volatility in raw materials prices we have a risk management tool for calculating cash flow @ risk. Under consideration of the ability to pass on price changes, the size of the evaluated risk and the individual peculiarities of each raw material, prices are secured by agreeing supply contracts with fixed-price agreements or via derivative financial contracts. An internal guideline regulates the procedure within the Group.

■ Failure of IT systems

Servicing of business and production processes which are largely based on complex information technologies is carried out by a specialist IT company which is 100% owned by voestalpine AG.

Due to the importance of IT security, and in order to further minimize potential IT security risks, minimum security standards for data processing were drawn up in the past and adherence to these standards is audited annually.

■ Production facilities

In order to minimize the risk of breakdowns at critical facilities we have undertaken comprehensive, targeted investment in the technical optimization of sensitive units. Continual, preventative servicing, a risk-oriented storage of spare parts and employee training are further measures.

■ Employees

Challenging projects to sustainably secure knowledge and prevent the loss of know-

how were initiated in the past and are being consistently updated. The existing series of planned measures for implementation in the event of a pandemic are reviewed annually to ensure complete functionality, should they be required.

■ CO₂ risks

Risks related to CO₂ are covered in the "Environment" section in this Annual Report.

■ Risks in the financial area

With respect to guidelines competence, the setting of strategy and the definition of targets, financial risk management is centrally organized. The existing body of regulation includes targets, principles, tasks and competencies, both for the Group treasury and for the financial sector of each Group company. Financial risks are constantly monitored, quantified and, where appropriate, secured. The strategy aims to reduce fluctuations in cash flow and income. Market risks are largely secured through the use of derivative financial instruments.

Financing risks are secured through the measures detailed below:

Liquidity risk

Liquidity risk refers to the ability to raise funds at any time to settle incurred liabilities. The primary instrument for controlling liquidity risk is a precise financial plan that is submitted quarterly by the operating entities directly to the Group treasury of voestalpine AG. The requirements on financing

and bank credit lines are determined from the consolidated results.

Credit risk

Credit risk refers to financial losses that may occur through non-fulfillment of contractual obligations by business partners. The credit risk of the underlying transactions is kept low by precise management of receivables. A high percentage of delivery transactions are covered by credit insurance. Bankable security is also provided, such as guarantees and letters of credit. As of March 31, 2010, 77% of receivables from deliveries and services were covered by credit insurance.

Currency risk

An initial hedge is provided by naturally covered items where, for example, trade receivables in USD are offset by liabilities for the purchase of raw materials (USD netting). Hedging can also be achieved through the use of derivative hedging instruments.

Interest rate risk

An evaluation of interest rate risk differentiates between the cash flow risk (the risk that interest expenses or interest income will undergo a detrimental change) for variable-interest financial instruments and present value risk for fixed-interest financial instruments. The strategy of the Group is to reduce interest rate volatility through the use of the portfolio effect and interest hedges.

■ Economic and financial crisis

Measures were introduced during the previous year to counteract the effects of the global economic and financial crisis on the voestalpine Group, and these measures continued to be implemented during the business year 2009/10.

The measures were targeted at

- keeping the negative effects of the economic recession on the Company to a minimum,
- maintaining high levels of production quality whilst simultaneously reducing costs,
- being able to make available sufficient financial liquidity, and
- securing the know-how within the Group with a view to continuing the long-term expansion of our leadership in quality and technology.

Tangible measures were developed and implemented to minimize or eliminate risks identified within the Group in the past, thereby continuing the trend of reducing the potential for risk. The measures which were developed were targeted at reducing the extent of potential loss and/or minimizing the likelihood of these risks occurring.

In conclusion, the risks faced by the voestalpine Group are limited and manageable and do not endanger the survival of the Group. Nor are there any identifiable risks to the future existence of the Company.

Report on the key features of internal control and risk management systems with respect to accounting procedures

In accordance with the Austrian Commercial Code (UGB) § 243a (2) as amended by the Austrian Company Law Amendment Act of 2008 (URÄG 2008), companies whose shares are traded on the regulated markets must describe in their management reports the key features of their internal control and risk management system with respect to accounting procedures.

It is the responsibility of the Management Board to establish a suitable internal control and risk management system for accounting procedures pursuant to § 82 of the Austrian Stock Corporation Act (AktG). For that purpose, the Management Board has passed guidelines which are binding for the whole Group.

In line with the decentralized structure of the voestalpine Group, the local management of each Group company is obliged to establish and design an internal control and risk management system for accounting procedures which meets the demands of that individual company and ensures adherence to existing Group-wide guidelines and regulations.

The entire procedure, from procurement to settlement, is subject to strict Group guidelines which are designed to avoid the risks associated with the business processes. These Group guidelines set out measures and regulations for avoiding risk. They include, for example, the separation of functions, signatory systems, and the authority to sign for settlements which is exclusively collective and limited to only a few persons ("four eyes" principle).

In this context, control measures for IT security constitute a cornerstone of the internal control system. The separation of sensitive activities is supported through the restrictive issuing of IT authorizations. Accounting at each Group company is basically effected using SAP software. The operational capability of this accounting system is also guaranteed by automatic IT controls, amongst others, in the system.

In preparing the consolidated financial statements, the data for fully consolidated or proportionately consolidated entities is transferred to the unified Group consolidation and reporting system.

The unified Group accounting policies for recording, booking and balancing commercial transactions are regulated by the voestalpine consolidated financial statements handbook and are binding for all Group companies concerned. Automatic controls built into the reporting and consolidation

system, together with numerous manual controls, are implemented in order to avoid material misstatements. These controls extend from management reviews of income and expenses for each period through to the specific reconciliation of accounts.

The form in which the Group reports its accounting processes is summarized in the voestalpine controlling handbook.

The accounting and controlling departments at each Group company submit monthly reports with Key Performance Indicators (KPIs) to their own managing directors and management board members, and, after authorization, to Corporate Accounting & Reporting. Here these reports are summarized, consolidated and reported to the Group Management Board. Quarterly reports include additional information such as detailed target-performance comparisons and are dealt with in a similar manner. Quarterly reports are submitted to the supervisory or advisory board of each Group company and a consolidated report is submitted to the Supervisory Board of voestalpine AG.

As with operative risks, accounting procedures are also subject to risk management. Potential accounting risks are regularly surveyed and avoidance measures implemented. The focus is placed on those risks which are regarded as fundamental to the activities of that company. Compliance with the internal control system and its quality is monitored on an ongoing basis in the form of audits at Group company level. The Internal Audit department works closely with the responsible management board members and managing directors. The Internal Audit department reports directly to the CEO and submits reports periodically to the Management Board of voestalpine AG, and subsequently to the Audit Committee of the Supervisory Board.

The control systems of each company division are also subject to control by the auditor as part of the annual financial statements where these controls are relevant to the preparation of the Group's consolidated financial statements and to the fair presentation of the Group's financial statements.

Disclosures in accordance with § 243a of the Austrian Commercial Code (UGB)

As of March 31, 2010, the share capital of voestalpine AG amounts to EUR 307,132,044.75 and is divided into 169,049,163 no-par value bearer shares. There are no restrictions on voting rights (1 share = 1 vote). voestalpine AG is unaware of any agreements among its shareholders or between its shareholders and third parties that restrict voting rights or the transfer of shares.

Raiffeisenlandesbank Oberösterreich Invest GmbH & Co OG, Linz, as well as the voestalpine Mitarbeiterbeteiligung Privatstiftung (a private foundation for the Group's employee shareholding scheme), Linz, each hold more than 10% of the Company's share capital; Oberbank AG, Linz, holds more than 5%.

The Management Board of the voestalpine Mitarbeiterbeteiligung Privatstiftung exercises the voting rights of shares that are owned by Group company employees participating in the employee shareholding scheme and which are held in trust by the voestalpine Mitarbeiterbeteiligung Privatstiftung. However, the way in which the voting rights are exercised requires the approval of the Advisory Board of the voestalpine Mitarbeiterbeteiligung Privatstiftung. The Advisory Board decides on the approval with a simple majority. The Advisory Board is constituted on a basis of parity, with 6 members representing employees and 6 members representing the employer. The Chairman of the Advisory Board, who must be appointed by the employee representatives, has the deciding vote in the event of a tie.

For powers of the Management Board that are not directly derived from applicable

statutes, such as the purchase of the Company's own shares, authorized or contingent capital, we refer to item 17 (Equity) in the notes to the consolidated financial statements 2009/10.

The hybrid bond issued in October 2007, the bonds issued in the business year 2008/09 (EUR 333 million in fixed-interest securities 2008–2011, as well as EUR 400 million in fixed-interest securities 2009–2013), as well as other long-term financing agreements with an initial volume of EUR 2.1 billion, which the Company executed in the business year 2008/09 with national and international banks, contain so-called change-of-control clauses. With the exception of the hybrid bond, according to the terms of these financing agreements, the bondholders or the lending banks have the right to demand redemption of their bonds if control of the Company changes. Under the terms and conditions of the hybrid bond issue, the fixed interest rate of 7.125% (interest rate during the fixed-interest period) or the margin of 5.05% (interest rate during the variable-interest period) goes up by 5% 61 days after a change in control occurs. voestalpine AG has the right to call and redeem the bonds no later than 60 days after a change in control. According to the terms and conditions of the aforementioned bonds and financing agreements, control by voestalpine AG changes when a controlling interest within the meaning of the Austrian Takeover Act (*Übernahmegesetz*) is acquired by another party.

The Company has no compensation agreements with the members of the Management Board, Supervisory Board, or employees in the event of a public tender offer.

Outlook

In the spring of 2010, the global economic situation is being shaped almost exclusively by macroeconomic parameters. The development of individual companies, sometimes even of entire business sectors, is being eclipsed by fundamental debates and decisions concerning political, economic, and monetary policy. In the last decades, the structures and positions within the global economic and monetary fabric have seldom been questioned and challenged as forcefully as has been the case in these weeks and months—from the basic topic of the general relationship between politics and the economy, to the limits of the debt-carrying capacity of national economies and to the question of regulation of capital and financial markets.

Against this backdrop, it is even harder today to predict than it was just a few months ago to what extent the effects of the worst recession of the last decades have been definitively overcome and whether we can assume at least a gradual recovery of the global economy in the next years. In the light of the progressively worsening indebtedness situation in a number of—not only

European—countries, the question also arises of whether a broad-based recovery of the world economy in the foreseeable future is even realistic or whether we should assume that this is merely an upswing in individual regions and is itself possibly only temporary.

The decisive role in the answer to this question will be the development of the economic situation in Asia, primarily the sustainability of the uptrend in China. In this context, the Chinese monetary and foreign exchange policies have become increasingly important for the future course of global trade. From the European perspective, it is the further development of the euro in relation to other Western currencies that will determine the economic landscape. Apart from the pacifying effect that a possible euro consolidation would have on the capital markets, current events could also have positive aspects for Europe in the long term. Should a deepening of the economic integration of the European Union or the euro area result from a solution of the indebtedness problems of individual European countries, this would in the long term lead to a significant

strengthening of this economic area in terms of worldwide competition.

In addition to all of these fundamental uncertainties, there are a number of unanswered questions from an industry-specific perspective with regard to what the further development of the economic situation might be. Which industries will recover more quickly and which only over the long term? How long will it take to be able to pass on the current doubling of raw materials costs for steel products along the entire value chain to the market? What does it mean for pricing vis-à-vis our customers that after decades of annual price agreements for raw materials, we are now dealing with quarterly price fixing?

But even if there is a great deal that is still unanswered and uncertain for the future, there are a number of facts that allow us to anticipate a continuation of the positive basic trend for the next months. Capacity utilization in the Steel and Railway Systems Divisions is outstanding and the positive trend in the Special Steel, Profilform, and Automotive Divisions is continuing. Demand is stable at a good level in the important

customer segments of the automobile and white goods industry, railway infrastructure, and alternative energies, and we are seeing rising demand in the conventional energy segment, in the mechanical engineering and tool manufacturing segments, and in the commercial vehicle industry. Only the construction and aviation sectors have shown hardly any growth. Additional favorable factors that support a continuation of the positive trend are a defused import situation in the European steel sector, customer inventories that are not filled above a normal level in all divisions, and price levels that are trending upward.

In summary, despite the very challenging economic environment that we described at the outset, we are anticipating a continuing improvement of the Group's operating result, at least for the first half of the business year 2010/11. From today's perspective, it is almost impossible to make predictions for the second half of the year. However, due to the increasing effect of continuing cost reduction measures, we anticipate that the voestalpine Group's operating result for the entire business year 2010/11 will be higher than that of the previous year.