STEEL DIVISION

MARKET ENVIRONMENT AND BUSINESS DEVELOPMENT

The market environment in the European steel industry has been subject to a hitherto unknown level of volatility in the past years, both in terms of price and quantity. This also impacted the Steel Division during the business year 2016/17.
However, the development of demand and prices was increasingly positive over the course of the business year. As the result of the position enjoyed by the division in sophisticated market niches, and with the greatest product-quality mix in the industry, it was possible to realize significant price increases over the four quarters. Strong levels of incoming orders in a series of product segments including hot-dip galvanized steel strip resulted in record production quantities.
On the procurement side, the past business year was characterized by strong price fluctuations, particularly for metallurgical coal. In November 2016 the price for metallurgical coal, the most important raw material in blast furnace steel production after iron ore, reached a price of around USD 300 a ton, rising from USD 80 a ton in a period of just a few months. In contrast, the price development of iron ore was much more moderate, although also marked by a continuing upwards trend through to the end of the business year.
In response to the high degree of volatility in the raw materials markets, in the past periods a contract portfolio has been established on the sales side which serves to spread the cost risks by varying contract durations and staggering starting points.

In comparison with the USA, Europe has responded far more slowly to the increasing flood of cheap steel on the global market, primarily from China, and has applied much lower import duties. However, the anti-dumping measures have made an impact over the business year 2016/17. After first subjecting imports of cold-rolled steel strip from China and Russia to duties, in October 2016 additional, preliminary import tariffs were placed on hot-rolled steel strip and heavy plate from China. Although this resulted in a significant fall in the quantity of flat steel imports from China, overall the level of steel imports into Europe remained high, the result of other countries simultaneously increasing their own delivery volumes of flat steel to Europe on a massive scale. However, in April 2017 the European Commission did not act to extend these import restrictions to cover hot-rolled steel strip from Brazil, China, Iran, Russia, Serbia, and Ukraine. In light of this, the strategic approach adopted by the Steel Division of orientation toward technologically-sophisticated customer segments, and offering a range of highest quality products, was once again very successful, ensuring voestalpine was largely unaffected by the strong downward pressure on prices suffered by standard products.

In the business year 2016/17 the performance of the key industry segments was primarily characterized by continued, robust demand from the automotive industry. Sales figures for passenger cars have risen strongly in Europe since 2015, and car registrations also continued to grow significantly in the calendar year 2016. Continuing high

KEY FIGURES OF THE STEEL DIVISION

In millions of euros	2015/16	2016/17	Change in %
Revenue	3,753.7	3,912.4	4.2
EBITDA	478.3	563.9	17.9
EBITDA margin	12.7%	14.4%	
EBIT	220.0	263.2	19.6
EBIT margin	5.9%	6.7%	
Employees (full-time equivalent)	10,891	10,898	0.1

sales volumes during the first months of 2017 across all automotive segments indicate that this stable trend is likely to continue. Positive momentum also came from the white goods and mechanical engineering industries in 2016/17. There was also a slight improvement in demand from the construction industry over the course of the business year. The electrical industry gained considerable momentum, particularly in the second half of the business year.

In the energy sector the Heavy Plate business segment was able to secure a solid level of capacity utilization with the start of production for the "Nord Stream 2" line pipe contract during the second quarter of 2016/17. Deliveries of pressure-resistant and sour gas-resistant heavy plate for the deep-sea part of the project will continue through to the end of the business year 2017/18. Additionally, in the fourth quarter of 2016/17 orders were also acquired for further deep-sea projects in the Mediterranean. In contrast, demand for apparatus engineering and steel construction in the Heavy Plate business segment was only moderate.

FINANCIAL KEY PERFORMANCE INDICATORS

After an initially restrained start to the business year 2016/17, the Steel Division was able to successively improve its results over the course of the business year to finally deliver the best operating result (EBITDA) since the outbreak of the financial and economic crisis (second quarter of 2008/09) in the fourth quarter. A brightening of the operating environment contributed to this success, as well as the continuously intensified program of cost and efficiency optimization measures executed over the past years. In view of the excellent level of demand for high-quality flat steel products, as well as considerable rises in raw material costs, it was possible to increase contract prices significantly, especially in the final quarter of

2016/17. Together with an increase in sales volumes, revenue rose by 4.2%, from EUR 3,753.7 million to EUR 3,912.4 million in a year-to-year comparison. For the first time in the Steel Division, since the second half of 2016/17 revenue also included deliveries of HBI (sponge iron) to external customers.

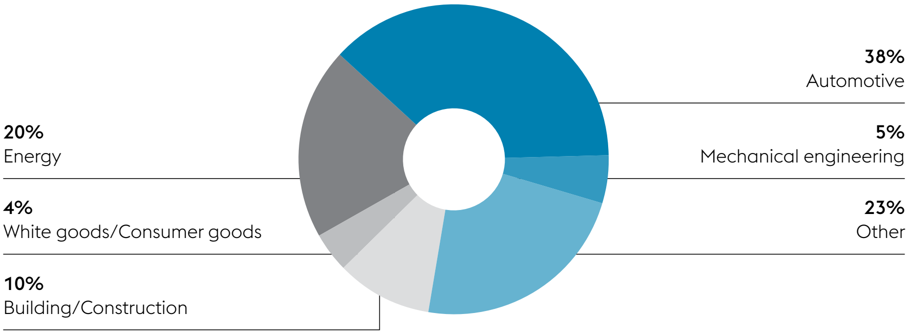
In terms of earnings performance, in the business year just ended the division recorded a substantial improvement, even taking into account the start-up losses at the HBI plant in Texas, USA, and the provisions made in the financial statements in the third quarter of 2016/17 for ongoing orders in the heavy plate segment due to the strong rise in coking coal prices since summer 2016. In addition, the performance loss resulting from the extensive renovation of blast furnace 5 in the business year 2015/16 (fine-tuning adjustments to the coal injection system) adversely affected the division's result in the first quarter of 2016/17. The operating result (EBITDA) rose by 17.9% in the business year 2016/17, from EUR 478.3 million to EUR 563.9 million compared to the previous year. In percentage terms, profit from operations (EBIT) also improved to a similar extent, recording a plus of 19.6%, from EUR 220.0 million to EUR 263.2 million. Seen in terms of absolute values, the increase in EBIT was smaller than the rise in EBITDA due to the higher depreciation basis, the result of finalizing major investment projects (renovation of blast furnace 5, a new vacuum system at the site in Linz, Austria, and the HBI plant in Texas, USA). In a year-to-year comparison the EBITDA margin improved from 12.7% to 14.4%, and the EBIT margin from 5.9% to 6.7%.

In a direct quarter-to-quarter comparison between the third and fourth quarters of 2016/17, the Steel Division demonstrated a surge in revenue and results which reflects the generally positive economic framework conditions at the start of 2017, as well as traditionally solid demand during the first quarter of the calendar year. Consequently, during the closing quarter of 2016/17 the division not only succeeded in passing on the huge rises in raw material costs to the market, it also increased delivery volumes by around 15% compared to the third quarter of the business year. As a result, revenue rose by 30.3%, from EUR 927.8 million in the third quarter to EUR 1,208.5 million in the fourth quarter. In terms of earnings performance, in a direct quarter-to-quarter comparison EBITDA increased by 41.2%, from EUR 138.1 million to EUR 195.0 million, and EBIT by as much as 83.0%, from EUR 58.7 million to EUR 107.4 million. The EBITDA margin improved during this period from 14.9% to 16.1%, with the EBIT margin rising from 6.3% to 8.9%.

As of March 31, 2017, the Steel Division had 10,898 employees (FTE); this remained constant in comparison to the figure on the reporting date in the previous year (10,891 employees).

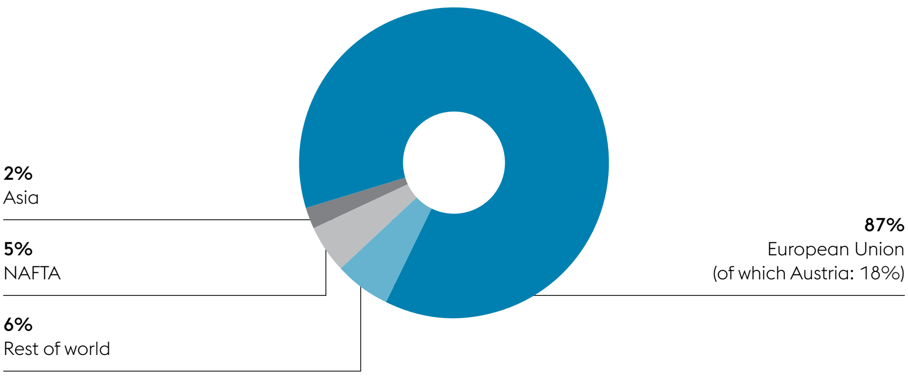
CUSTOMERS OF THE STEEL DIVISION

As percentage of divisional revenue, business year 2016/17



MARKETS OF THE STEEL DIVISION

As percentage of divisional revenue, business year 2016/17



QUARTERLY DEVELOPMENT OF THE STEEL DIVISION

In millions of euros	1st quarter 2016/17	2nd quarter 2016/17	3rd quarter 2016/17	4th quarter 2016/17	BY 2016/17
Revenue	909.0	867.1	927.8	1,208.5	3,912.4
EBITDA	87.2	143.6	138.1	195.0	563.9
EBITDA margin	9.6%	16.6%	14.9%	16.1%	14.4%
EBIT	21.1	76.0	58.7	107.4	263.2
EBIT margin	2.3%	8.8%	6.3%	8.9%	6.7%
Employees (full-time equivalent)	10,869	10,928	10,869	10,898	10,898