INTERIM MANAGEMENT REPORT

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

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

There is no doubt that, at the macroeconomic level, developments during the first half of the business year 2018/19 were shaped primarily by the global trade war that the United States started. Besides China—the main target so far of the protectionist policies—as well as a number of other countries, the US has also antagonized erstwhile allies such as Europe and made abundantly clear even to its closest neighbors, Canada and Mexico, by terminating NAFTA that it was interested in more than merely amending the trade agreement. The economies of the countries that are key to the voestalpine Group developed along different trajectories in this environment.

EUROPE

The protectionist aims of the United States did not have much of an impact on economic activity in Europe during the first half of the business year 2018/19—at least until now. Domestic European demand, in particular, has been solid in most countries and industries and thus has provided the basis for the growth momentum that remained strong throughout almost the entire period.

Not until the second quarter of the business year 2018/19 did slightly weakening growth rates and falling indicators of economic sentiment such as the PMI Composite or the EU Sentiment Indicator point to a slight slowing in economic growth down the road.

Aside from Great Britain (which is hamstrung by the Brexit issue), however, the German economy also developed along a slightly weaker trajectory within the rather solid environment overall that held sway in Europe during the first half of the business year 2018/19. In addition to more moderate revenue from foreign trade on the whole and shrinking exports, this was due mainly to the substantially subdued performance of the automotive industry especially in response to problems associated with the implementation of the new emissions testing rules, the so-called Worldwide Harmonized Light Vehicle Test Procedure (WLTP). Given the relevance of the automotive industry to the economy on the whole for Germany as an important business center, its downturn had a major impact on industrial production statistics. voestalpine benefitted in the first few months of the current business year from otherwise solid demand across all sectors. Particularly the construction industry, but the mechanical engineering industry also, were borne along by strong demand that continued unabated throughout Europe. Compared to the previous quarters, the Railways segment did develop some momentum, but the latter was largely limited to volume and prices are still lagging far behind.

The distortions in the automotive industry that stem from the new emissions tests finally also impacted the voestalpine Group toward the end of the first half of the business year in the form of slightly lower order volumes. Even the changes in international trade flows resulting from increasingly protectionist economic policies in an ever increasing number of countries, which we merely

observed at the beginning, actually started to have negative effects at the end of the first half of the business year 2018/19 on tool steel prices in Europe, for example.

NORTH AMERICA

Economic growth in North America remained strong on the whole during the first half of the business year 2018/19. Consumer confidence has remained high and thanks not least to strong domestic demand, which continues unabated, the general economic climate has not been affected either by the most recent trade war conflicts. All of this is playing out against the backdrop of an unemployment rate that is as low as it last was in 1969 and thus is causing household income in the US to grow again for the first time in years. And the recently signed new trade agreement with Canada and Mexico (USMCA) has put an end to the widespread uncertainty that the termination of NAFTA had triggered, thus further strengthening people's confidence in positive economic growth.

The punitive tariffs that took effect in June 2018 on national security grounds (Section 232) have helped the US steel industry to enact massive price increases. So far, the resistance of the processing industries has been negligible, possibly also on account of last year's tax reform that led to significant reductions in corporate taxes.

The voestalpine Group has profited from this exceedingly positive economic environment thanks to excellent demand from the aerospace industry, the storage technology sector, and the construction industry in general. This also applies to the railway infrastructure segment that has been showing substantial signs of a recovery after mere moderate demand just a year earlier. By contrast, the voestalpine Group has been unable to benefit fully from the developments in the oil and natural gas industry, which experienced highly pleasing demand growth overall in the first half of the business year 2018/19, due to the punitive US tariffs. In the automotive industry, which is contracting a bit in North America yet still developing at a high level, to date voestalpine has supported primarily the US activities of European automotive manufacturers. Several new facilities are currently being started up simultaneously at the Group's largest and most complex automotive components plant in North America, which is located in Cartersville, Georgia, USA; the associated start-up costs will continue to impact the plant's bottom line up to the summer of 2019.

SOUTH AMERICA / BRAZIL

While the Brazilian economy on the whole is on track for a recovery, so far the actual process has been very slow to start after four years of recession. Aside from negative political headlines and many months of presidential electioneering, the gradual strengthening of the US dollar against the Brazilian real and rising interest rates in the dollar sphere are also inhibiting the recovery. The Brazilian currency has been highly volatile, furthermore, and the critical state of affairs in South America overall, especially in Argentina and Venezuela, has not provided much support either.

In contrast to this macroeconomic environment, which remains critical, voestalpine's Brazilian entities in the tool steel, special materials, special sections, and railway systems infrastructure business segments have delivered solid growth.

ASIA / CHINA

China, the main target of the current US Administration's protectionist trade policies, is suffering increasingly from their fallout, even though the published economic data continue to paint a robust picture. The Chinese central government reacted immediately in the spring of 2018 to the fears of dampened economic growth by lowering interest rates and enacting stimulus packages. This not only improved the economic sentiment in general but also boosted investments. Most recently, however, exports have declined anyway in the face of the country's trade war with the United States.

In this environment, voestalpine benefitted in the railway infrastructure sector from the renewed strength of infrastructure investments, whereas the market for tool steel has shown clear signs of a slowdown, which stems not least from the downward trend in the automotive segment.

REPORT ON THE FINANCIAL KEY PERFORMANCE INDICATORS OF THE voestalpine GROUP

While the revenue of the voestalpine Group rose by 5.9% from EUR 6,302.3 million in the first half of the business year 2017/18 to EUR 6,674.0 million in the first half of the business year 2018/19, the results for the current period fall short year

over year for a number of reasons. While all four of the Group's divisions succeeded in lifting revenue, only the High Performance Metals Division and the Metal Engineering Division posted higher earnings.

Among other things, the growth of revenue in the Steel Division stems from an improved product mix in the Heavy Plate business segment which, in turn, stems from the delivery of very high-quality products for the oil and natural gas sector in the first six months of the business year 2018/19. Together with slight price increases on the whole compared to the previous year, this enabled the division to more than offset the declines in volume resulting from the major overhaul of its most important blast furnace. In terms of volume, the loss of production capacity owing to the repairs was largely offset through purchases of slabs from third parties and the use of the pre-materials inventory that had been built up for this purpose, thus ensuring continuous supplies to the downstream rolling facilities. For reasons related to both logistics and production, however, deliveries declined year over year on account of the repairs by some 10%. Both the repair-related unavailability of the blast furnace during a period of more than three and one half months and the associated peripheral costs (replacement purchases of electricity and natural gas, etc.) are the main reasons for the Steel Division's earnings decline in the first half of the business year 2018/19.

The High Performance Metals Division, by contrast, posted not only a revenue increase in the first two quarters of the business year 2018/19 compared with the previous year, but also improved earnings. This development is due both to higher prices and a slight increase in unit sales.

The Metal Engineering Division, for its part, also succeeded in delivering year-over-year gains in the first six months of the business year 2018/19 with respect not just to revenue but also to earnings. Here, particularly the growth in delivery volumes for seamless tubes, the greater demand for welding consumables as well as the increase in the sales prices for wire technology had a positive impact on revenue. In terms of earnings, the Wire Technology business segment achieved substantial growth, because the start-up phase of the new wire rolling mill had negatively affected its performance the previous year. In addition, this segment took a non-recurring EUR 15 million write-off in the previous year, with the resulting negative effect on its profit from operations (EBIT).

The Metal Forming Division, by contrast, succeeded in boosting its revenue in the first half of the business year 2018/19, but had to contend with a simultaneous decline in profitability. Both the fact that higher pre-materials prices were passed on and the ongoing expansion of the division's international activities in the Automotive Components business segment were responsible for the division's revenue growth. The increase in the start-up costs of new facilities for the automotive industry in North America, for one, and the slight reduction in earnings in the Tubes & Sections segment, for another, were the main factors in its earnings decline.

Against this backdrop, the operating result (EBITDA) of the voestalpine Group was down by 11.2% in the first half of the business year 2018/19, falling from EUR 968.9 million in the same period of the previous year to currently EUR 860.1 million. The profit from operations (EBIT) dropped in the same period from EUR 584.2 million to EUR 479.5 million—a decline of 17.9%. However, both EBITDA and EBIT also contain a total of EUR 7.7 million in negative non-recurring effects from the required adjustment of the provisions for long-service bonuses (see the Notes for details). The profit before tax fell by the same rate as EBIT, specifically, from EUR 513.6 million in the first half of the business year 2017/18 to EUR 421.5 million in the first half of the business year 2018/19—a decline of 17.9%, too. Year over year, the profit after tax dropped 18.7% from EUR 388.9 million to EUR 316.2 million.

Due to the positive earnings growth in the past 12 months, the equity of the voestalpine Group rose from EUR 6,183.8 million as of September 30, 2017, to EUR 6,550.9 million as of September 30, 2018. At EUR 6,554.3 million, equity remained stable relative to the March 31, 2018 reporting date. Net financial debt rose year over year, specifically, from EUR 3,310.3 million as of September 30, 2017, to EUR 3,599.0 million as of September 30, 2018. For the most part, this is due to the substantial increase in working capital which, in turn, stemmed from higher costs for raw materials but also from the general growth of the Group's business—particularly the international expansion of its activities in the Automotive Components business segment of the Metal Forming Division. Relative to the

March 31, 2018, reporting date (EUR 2,995.1 million), net financial debt rose to a greater extent owing to the fact that, aside from the aforementioned increase in working capital, the distribution of some EUR 250 million in dividends has a stronger effect, mathematically speaking, in the second business quarter. Against this backdrop, the gearing ratio (i.e. net financial debt as a percentage of equity) rose slightly year over year, from 53.5% as of September 30, 2017, to 54.9% as of September 30, 2018; it was much higher, however, relative to the March 31, 2018, reporting date (45.7%).

As of September 30, 2018, the voestalpine Group had 51,931 employees (FTE), which corresponds to a 2.6% increase year over year, up from 50,638 employees. This is 0.6% higher than the number as of the March 31, 2018, reporting date (51,621 employees).

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

In millions of euros	Q1		Q2		H1		
	2017/18 04/01–06/30/2017	2018/19 04/01–06/30/2018	2017/18 07/01–09/30/2017	2018/19 07/01–09/30/2018	2017/18 04/01–09/30/2017	2018/19 04/01–09/30/2018	Change in %
Revenue	3,251.5	3,469.0	3,050.8	3,205.0	6,302.3	6,674.0	5.9
EBITDA	513.8	513.0	455.1	347.1	968.9	860.1	–11.2
EBITDA margin	15.8%	14.8%	14.9%	10.8%	15.4%	12.9%	
EBIT	328.8	323.8	255.4	155.7	584.2	479.5	–17.9
EBIT margin	10.1%	9.3%	8.4%	4.9%	9.3%	7.2%	
Profit before tax	292.4	294.3	221.3	127.2	513.6	421.5	–17.9
Profit after tax	218.4	224.4	170.5	91.8	388.9	316.2	–18.7
Employees (full-time equivalent)	50,047	51,827	50,638	51,931	50,638	51,931	2.6

Net financial debt can be broken down as follows:

NET FINANCIAL DEBT

In millions of euros	09/30/2017	09/30/2018
Financial liabilities, non-current	3,492.6	2,376.3
Financial liabilities, current	1,151.6	1,756.7
Cash and cash equivalents	–731.6	–264.0
Other financial assets	–584.9	–256.0
Loans and other receivables from financing	–17.4	–14.0
Net financial debt	**3,310.3**	**3,599.0**

STEEL DIVISION

QUARTERLY DEVELOPMENT OF THE STEEL DIVISION

In millions of euros	Q1		Q2		H1		
	2017/18 04/01–06/30/2017	2018/19 04/01–06/30/2018	2017/18 07/01–09/30/2017	2018/19 07/01–09/30/2018	2017/18 04/01–09/30/2017	2018/19 04/01–09/30/2018	Change in %
Revenue	1,213.3	1,276.4	1,085.5	1,139.2	2,298.8	2,415.6	5.1
EBITDA	227.8	223.9	214.9	118.5	442.7	342.4	–22.7
EBITDA margin	18.8%	17.5%	19.8%	10.4%	19.3%	14.2%	
EBIT	150.2	145.0	137.7	36.7	287.9	181.7	–36.9
EBIT margin	12.4%	11.4%	12.7%	3.2%	12.5%	7.5%	
Employees (full-time equivalent)	10,810	11,111	10,905	10,972	10,905	10,972	0.6

MARKET ENVIRONMENT AND BUSINESS DEVELOPMENT

In Europe, the demand for steel continued to grow in the first nine months of the 2018 calendar year, thus largely continuing the previous year's trend. The driving force behind the stable demand momentum has been the European construction industry in general (excepting Great Britain's, where the economic sentiment has continued to darken owing to the Brexit vote), which is key to capacity utilization overall in the steel industry. The mechanical engineering industry also succeeded in further boosting its production capacity in the business year to date over and above the previous year's very solid scenario, whereas the consumer goods industry has seen a slight weakening in recent months. Demand from the automotive industry also followed a highly positive trajectory up to the summer. But orders for components were cancelled on short notice and in part to a significant degree after the previously announced and in part extended summer closures. This development was triggered primarily by the new emissions testing procedure (WLTP), which has applied to all new vehicle registrations since September 2018. Against the backdrop of the continued stability of the economy on the whole, the steel producers in the European Union (EU) succeeded in slightly lifting pig iron production in the first three quarters of 2018 compared with the previous year.

The statistics on the importation of flat steel products into the EU also reflect Europe's strong economic momentum, which continues unabated. These statistics point to a dramatic year-over-year increase especially in the third calendar quarter (which equates to voestalpine's second business year quarter). Aside from the solid development of the European market, this trend is also rooted in trade diversion measures in response to the intensifying protectionist policies of the US Administration. Hence the European Union for its part reacted to the "protective" tariffs on steel imports into the US that took effect on July 1, 2018, by enacting so-called "Safeguard Measures" aimed at tamping down on import pressures resulting from diversion effects in the global stream of goods. Notwithstanding these non-recurring effects, both the cost of raw materials and steel prices have largely tracked a slight upward trend in the business year 2018/19 to date.

However, the Steel Division benefitted from the solid market development overall in the first half of the business year 2018/19 only to a limited extent, because the major overhaul of the Group's largest blast furnace at its Linz, Austria, site that had been planned for a long time started in early June after 14 years of continuous operation, thus dramatically curtailing the production of pig iron for more than three and one half months. While the fact that an extensive (slab) pre-materials inventory had been put in place ahead of time and additional materials were purchased as necessary during the maintenance work ensured fairly solid capacity utilization of the downstream rolling facilities, delivery volumes for the first six months of the business year 2018/19 are about 10% lower year over year nonetheless.

Aside from the industrial sectors already discussed in the foregoing, the situation in the oil and natural gas sector (the most important customer segment of the Heavy Plate business segment) was

stable at a positive level in the first half of the business year 2018/19 thanks to work on highly sophisticated specifications related especially to deep sea pipeline projects. The market environment of the direct reduction plant in Corpus Christi, Texas, USA, was very attractive during the first six months of the business year 2018/19, but both planned and unplanned production stoppages led to significantly lower than normal capacity utilization. While a three-week maintenance shutdown was carried out as planned in June, heavy rains and floods made a two-week production shutdown necessary in September.

FINANCIAL KEY PERFORMANCE INDICATORS

Year over year, the Steel Division succeeded in lifting its revenue by 5.1% from EUR 2,298.8 million in the first half of 2017/18 to EUR 2,415.6 million in the first half of the current business year despite the massive limitations stemming from the major overhaul of the blast furnace. This increase is mainly due to the aforementioned attractive product mix in the Heavy Plate segment, but also to the slight increase in steel strip prices resulting from the minor increase in the cost of raw materials. This made it possible to more than offset the 10% reduction in delivery volumes caused by the maintenance work on the large blast furnace.

In terms of earnings, however, the (planned) loss of the most important pig iron facility was the main reason for the substantial downturn in the first half of the business year 2018/19. Moreover, the Texas HBI plant—as described above—was confronted with (planned and unplanned) production stoppages and resulting reductions in capacity utilization over several weeks. Against this backdrop, the operating result (EBITDA) declined by 22.7% from EUR 442.7 million (margin of 19.3%) in the first half of the business year 2017/18 to EUR 342.4 million (margin of 14.2%) in the first half of the business year 2018/19. The profit from operations (EBIT) fell in the same period by 36.9% from EUR 287.9 million (margin of 12.5%) to EUR 181.7 million (margin of 7.5%).

Quarter to quarter, the key financial indicators of the Steel Division dropped sharply for seasonal reasons, but especially owing to the ramifications of the blast furnace repairs, which impacted mainly the business year's second quarter. Revenue thus declined by 10.7% from EUR 1,276.4 million in the first quarter of the business year 2018/19 to EUR 1,139.2 million in the second quarter. The losses had an even greater impact on earnings. Quarter to quarter, EBITDA dropped by almost one half from EUR 223.9 million to EUR 118.5 million, in turn causing the EBITDA margin to drop from 17.5% to 10.4% and EBIT by 74.7% from EUR 145.0 million (margin of 11.4%) to EUR 36.7 million (margin of 3.2%).

As of September 30, 2018, the number of employees (FTE) in the Steel Division was 10,972 or 0.6% higher than the past year's figure of 10,905. Compared with the number of employees (11,020) at the end of the business year 2017/18, this represents a marginal decrease of 0.4%.

HIGH PERFORMANCE METALS DIVISION

QUARTERLY DEVELOPMENT OF THE HIGH PERFORMANCE METALS DIVISION

In millions of euros	Q1		Q2		H1		
	2017/18 04/01–06/30/2017	2018/19 04/01–06/30/2018	2017/18 07/01–09/30/2017	2018/19 07/01–09/30/2018	2017/18 04/01–09/30/2017	2018/19 04/01–09/30/2018	Change in %
Revenue	739.3	780.3	692.1	765.6	1,431.4	1,545.9	8.0
EBITDA	127.4	129.2	99.1	100.6	226.5	229.8	1.5
EBITDA margin	17.2%	16.6%	14.3%	13.1%	15.8%	14.9%	
EBIT	89.6	91.9	62.6	63.8	152.2	155.7	2.3
EBIT margin	12.1%	11.8%	9.0%	8.3%	10.6%	10.1%	
Employees (full-time equivalent)	13,823	14,344	13,950	14,528	13,950	14,528	4.1

MARKET ENVIRONMENT AND BUSINESS DEVELOPMENT

While the market environment of the High Performance Metals Division was still very solid overall at the start of the business year 2018/19, since then individual market segments and economic regions have started to weaken. Particularly the automotive industry in both Europe and China, which is important to the development of demand for high-grade tool steel, has lost momentum in the past six months. The numbers coming out of the consumer goods industry also show a slight decline compared with the preceding quarters. On the whole, demand for tool steel trended negative owing to numerous countries' increasingly protectionist policies.

By contrast, investments in the oil and natural gas sector have risen during the business year to date as a result of rising oil prices, further boosting order levels in this segment. Aside from the increase in project activity that is aimed at developing new oil and natural gas fields, the repair business has grown as well, especially in the United States, the technology leader. Our local presence in Europe, North America, and Asia—which enables us to maintain our own inventories and thus offers pre-processing opportunities—turns out to be an important factor in our ability to stand out from the competition in this connection. The market environment of the aerospace industry also remained solid. Investments in high-tech forging facilities for sophisticated aircraft components, whose capacity utilization is secured for years at a time under long-term contracts, help to support the above-average growth we expect to achieve in this industry in the coming years.

Regionally speaking, in Europe the High Performance Metals Division benefitted from very solid market conditions in the mechanical engineering and commercial vehicle industry. Just as in the United States, order activity in this region's oil and natural gas sector grew as well, while competitive pressures in the European toolmaking industry have intensified not least on account of diversion effects stemming from the punitive tariffs in the United States. Yet the division delivered altogether stable performance in North America—especially because most of our applications for exemptions from the US's punitive tariffs in the tool steel segment were granted. The Mexican market also developed along a stable trajectory overall.

The upward trend in Brazil, which had already begun to make itself felt the previous year, continued in the current business year. Order activity particularly in the oil and natural gas industry continued to improve in this, South America's most important economic region. Not least export activities to the United States were supported by the weakening of the Brazilian real against the US dollar.

In contrast to South America, the market environment in China was dominated by slowing economic sentiment, and the rising tariffs particularly on exports to the US that affect primarily the consumer goods industry had a dampening effect. Sales volumes in China's automotive industry also declined most recently.

Manufacturing capacity utilization rates in the High Performance Metals Division were largely satisfactory in the first six months of the business year 2018/19. As usual, the seasonal slowdown

in demand during the summer was used for extensive maintenance work. The Value Added Services business segment, which distinguishes itself from the competition through both its customer proximity and its global positioning, succeeded in further strengthening its market position by continuing to expand its range of services.

FINANCIAL KEY PERFORMANCE INDICATORS

Year over year, the High Performance Metals Division boosted both revenue and results. Revenue grew by 8.0%, from EUR 1,431.4 million in the first half of 2017/18 to EUR 1,545.9 million in the first half of the current business year; this increase is due to higher pricing that stems from higher scrap and alloy prices as well as to sales gains. On the delivery side, the division's performance particularly in the first quarter of 2018/19 was excellent, whereas delivery volumes in the second quarter were more or less the same as in the previous year. The operating result (EBITDA) improved by 1.5% from EUR 226.5 million in the previous year to EUR 229.8 million in the first six months of the current business year, but the greater revenue growth lowered the EBITDA margin from 15.8% to 14.9%. Following a similar trajectory, the profit from operations (EBIT) rose year over year by 2.3% from EUR 152.2 million (margin of 10.6%) to EUR 155.7 million (margin of 10.1%).

The quarter-to-quarter comparison shows that the key financial indicators for the second quarter of the business year 2018/19 fell short of those for the first quarter for seasonal reasons, but also on account of partial slowdowns at the regional level. At EUR 765.6 million, therefore, revenue for the second quarter was 1.9% less than in the first quarter (EUR 780.3 million). EBITDA fell in the same period by 22.1% from EUR 129.2 million (margin of 16.6%) to EUR 100.6 million (margin of 13.1%). In addition, a required adjustment in the provisions for long-service bonuses (see the Notes for details) resulted in a negative non-recurring effect of EUR 1.5 million on earnings in the second quarter of the business year 2018/19. From the first to the second quarter of the current business year, the profit from operations (EBIT) dropped from EUR 91.9 million by 30.6% to EUR 63.8 million, causing the EBIT margin to decline from 11.8% to 8.3%.

As of the end of the first half of the business year 2018/19, the number of employees (FTE) was 14,528 and thus 4.1% higher than the figure (13,950) for the same quarter of the previous business year. Relative to the figure (14,274) as of the end of the previous business year, the number of employees has risen by 1.8%.

METAL ENGINEERING DIVISION

QUARTERLY DEVELOPMENT OF THE METAL ENGINEERING DIVISION

In millions of euros	Q1		Q2		H1		
	2017/18 04/01–06/30/2017	2018/19 04/01–06/30/2018	2017/18 07/01–09/30/2017	2018/19 07/01–09/30/2018	2017/18 04/01–09/30/2017	2018/19 04/01–09/30/2018	Change in %
Revenue	770.0	799.8	741.2	747.6	1,511.2	1,547.4	2.4
EBITDA	87.2	98.5	90.5	85.3	177.7	183.8	3.4
EBITDA margin	11.3%	12.3%	12.2%	11.4%	11.8%	11.9%	
EBIT	47.0	56.3	34.4	44.4	81.4	100.7	23.7
EBIT margin	6.1%	7.0%	4.6%	5.9%	5.4%	6.5%	
Employees (full-time equivalent)	13,274	13,577	13,450	13,512	13,450	13,512	0.5

MARKET ENVIRONMENT AND BUSINESS DEVELOPMENT

The Metal Engineering Division was organizationally realigned in the first half of the business year 2018/19 so that it can position itself even better than before as a provider of complete systems solutions in sophisticated industrial segments. For one, this entailed bundling competences in railway, turnout, and signaling technology to form the new Railway Systems business segment and, for another, combining the previously separate segments Wire Technology, Tubulars, and Welding Consumables into a new "Industrial Systems" business segment.

Market demand in Europe in the Railway Systems business segment has recovered slightly in the course of the 2018 calendar year to date after two difficult years, largely because of the need to catch up on maintenance investments, whereas project activity in new tracks remains merely moderate, as before. Yet the rails product area has succeeded nonetheless in the current business year to utilize its facilities to full capacity. The improved market environment has also resulted in slightly rising prices, which should have an effect once orders are processed over the next few quarters. The turnout systems segment has also benefitted from the accelerating recovery in Europe. After delaying a number of projects at the start of the year, recently the Chinese government substantially boosted investments in high-speed rail lines yet again. Activities related to the railway infrastructure in Australia's and Brazil's mining regions also expanded thanks to stable raw material prices. The momentum in the US's heavy-haul transports segment has intensified as well, whereas the market environment in South Africa remains highly volatile. The signaling technology segment, which is positioning itself in the market as a provider of complete solutions and delivers digital sensor technology to railway operators, is in the process of rolling out its business model from Europe to the rest of the world.

Due to global protectionist tendencies, for one, and the downturn in the European automotive industry, for another, the Industrial Systems business segment fell slightly short of expectations at the start of the business year. The wire technology product segment, which is strongly aligned with the automotive sector, was confronted with a significant decline in demand from European auto manufacturers in the wake of the new WLTP emission rules in the second quarter. The momentum in the oil and natural gas sector in this division was as restrained as before, especially with respect to deep-sea projects.

While demand for Oil Country Tubular Goods (OTCG) products in the important US market has been very satisfactory during the 2018 calendar year to date, relative to local providers the seamless tubes segment has had to contend with sharply intensifying competition triggered by the introduction of protectionist (Section 232) tariffs on imports to the United States. In particular, this is due to the fact that it has not been possible to fully offset the 25% import duty through price increases, among other things because the large distributors in the oil and natural gas sector purchased sufficient quantities of OTCG products before the protectionist tariffs went into effect.

The welding consumables segment delivered average performance in the first half of the busi-

ness year 2018/19. While demand in China for welding consumables remains solid, dampened expectations continue to shape the situation in Europe. This business segment intensified its cost optimization drive against this backdrop, pushing internal collaboration with other voestalpine companies with the aim of developing new business opportunities.

FINANCIAL KEY PERFORMANCE INDICATORS

Year over year, the revenue of the Metal Engineering Division rose by 2.4% from EUR 1,511.2 million to EUR 1,547.4 million. Both the recent increase in seamless tube delivery volumes and the improved pricing for wire technology had a positive impact on revenue. The Welding Consumables business segment also succeeded in expanding its business activities compared with the previous year. By contrast, the performance of the Railway Systems business segment in revenue terms was restrained, as before. The division's earnings for the first six months of the business year 2018/19 are higher year over year. The wire technology segment delivered the biggest gains, especially because the start-up phase of the new wire rod mill had depressed earnings the previous year. In sum, the Metal Engineering Division succeeded in lifting its EBITDA by 3.4%, from EUR 177.7 million in the first half of the previous business year to EUR 183.8 million in the first half of the current business year. At 11.9%, there was only a slight improvement in the EBITDA margin (previous year: 11.8%). Due to the non-recurring EUR 15 million write-off in the wire technology segment in the previous year's second quarter, at EUR 100.7 million (margin of 6.5%) EBIT for the first six months of the business year 2018/19 is substantially higher year over year (EUR 81.4 million and margin of 5.4%, respectively).

Quarter to quarter, the division's key financial indicators weakened somewhat due especially to seasonal effects. Revenue fell from EUR 799.8 million in the first quarter of the business year 2018/19 by 6.5% to EUR 747.6 million in the second quarter. The division also had to contend with the slowdown in the automotive sector during the second quarter which, in turn, negatively affected the wire technology segment's capacity utilization rate. Given that the US's punitive tariffs on seamless tube deliveries have taken effect in part, quarter to quarter the operating result (EBITDA) dropped by 13.4% from EUR 98.5 million in the first quarter of the business year 2018/19 to EUR 85.3 million in the second quarter, lowering the EBITDA margin from 12.3% to 11.4%. Furthermore, a negative non-recurring effect of EUR 1.7 million in the second quarter of the business year 2018/19 dampened the earnings trend owing to an adjustment of the provisions for long-service bonuses (see the Notes for details). During the same period, the profit from operations (EBIT) fell by 21.1% from EUR 56.3 million (margin of 7.0%) in the first quarter of the business year 2018/19 to EUR 44.4 million (margin of 5.9%) in the second quarter.

At 13,512, the number of employees (FTE) in the Metal Engineering Division as of the close of the second quarter of the business year 2018/19 surpassed the previous year's level (13,450) by 0.5%. Compared with the figure (13,481) as of the end of the previous business year, the number of employees has risen marginally by 0.2%.

METAL FORMING DIVISION

QUARTERLY DEVELOPMENT OF THE METAL FORMING DIVISION

In millions of euros	Q1		Q2		H1		
	2017/18 04/01–06/30/2017	2018/19 04/01–06/30/2018	2017/18 07/01–09/30/2017	2018/19 07/01–09/30/2018	2017/18 04/01–09/30/2017	2018/19 04/01–09/30/2018	Change in %
Revenue	672.7	748.0	648.9	697.1	1,321.6	1,445.1	9.3
EBITDA	88.6	84.4	75.1	68.2	163.7	152.6	–6.8
EBITDA margin	13.2%	11.3%	11.6%	9.8%	12.4%	10.6%	
EBIT	61.3	55.7	47.4	38.7	108.7	94.4	–13.2
EBIT margin	9.1%	7.5%	7.3%	5.6%	8.2%	6.5%	
Employees (full-time equivalent)	11,300	11,938	11,498	12,052	11,498	12,052	4.8

MARKET ENVIRONMENT AND BUSINESS DEVELOPMENT

The economic environment of the Metal Forming Division in its key customer segment, Automotive, darkened during the summer after developing along a solid trajectory in the current business year's first quarter. In part, the introduction of the new WLTP emissions testing procedure led to pull-forward effects in Europe on the production side and consequently to extended summer plant closures and/or additionally to temporary production stoppages. Given the new verification procedure, which made a new classification necessary for new vehicles at the latest by September 1, 2018, numerous European automakers cut back not just the range of their product offerings but also production on the whole. As a result, requests for components in the second quarter of the business year 2018/19 from the Group's most important customers in the Automotive Components business segment fell far short of the previous quarters. This development is also reflected in the vehicle registration statistics, which show that the number of new vehicle registrations in July and August was still high but dropped off sharply in September.

Accordingly, the capacity utilization rate at the European sites of the Automotive Components business segment was substantially lower in the summer of 2018 compared to the previous year. Not so at the Cartersville, Georgia, USA, site, where demand pressure among other things has raised the start-up costs for the new facilities; this means that start-up costs for the current business year will far exceed the budgeted costs. By contrast, the operational launches of our new facilities in China and South Africa have progressed smoothly for the most part.

In the first six months of the current business year, the Tubes & Sections business segment operated in a largely average market environment. On the European continent, this business segment benefitted from solid demand in the commercial vehicle industry as well as the mechanical engineering and construction sectors. Great Britain, by contrast, is increasingly feeling the negative effects of the Brexit vote. Contrary to the positive economic data coming out of the US, orders for specialty tubes and sections were volatile at a relatively moderate level. While the economic environment in Brazil presented an improved picture, the across-the-board recovery cannot be expected until after the presidential election.

The Precision Strip business segment has transitioned from signs of overheating in the previous year to customers' solid order activity in the first two quarters of the business year 2018/19. Regionally speaking, demand in China has lost a bit of steam, and order levels in Europe were a bit less dynamic, particularly in the important sawmill segment.

The Warehouse & Rack Solutions business segment continued to deliver strong performance in the first six months of the business year 2018/19. The ongoing shift toward online purchases has developed into a strong driver of demand for efficient storage systems. As a result, full production capacity utilization in this segment has already been secured beyond the close of the current business year.

FINANCIAL KEY PERFORMANCE INDICATORS

The Metal Forming Division lifted its revenue from EUR 1,321.6 million in the first half of the business year 2017/18 by 9.3% to EUR 1,445.1 million in the first half of the business year 2018/19. For one, this is due to the fact that higher pre-materials prices were successfully passed on to customers and, for another, to the ongoing expansion of the division's international activities, especially in the Automotive Components business segment. The earnings performance, however, trails the positive development of revenue. As a result, the operating result (EBITDA) for the first six months of the business year 2018/19 fell by 6.8% to EUR 152.6 million (margin of 10.6%), down from EUR 163.7 million (margin of 12.4%) the previous year. The losses are due, in particular, to the aforementioned start-up costs related to new facilities for the automotive segment in North America as well as the slightly weaker year-over-year performance of the Tubes & Sections business segment. The decline by 13.2% in the profit from operations (EBIT), from EUR 108.7 million in the previous business year to EUR 94.4 million in the current business year, also caused the EBIT margin to drop from 8.2% to 6.5%.

Comparing the first and second quarters of the business year 2018/19 shows that both revenue and earnings declined in the second quarter owing to the customary slowdown in demand during the summer, but also due to the economic downturn in the automotive industry. At EUR 697.1 million, revenue for the second quarter of the business year 2018/19 was 6.8 % less than in the first quarter (EUR 748.0 million). In earnings terms, the decline was even more pronounced. It stems mainly from the Automotive Components business segment, which suffered not only from lower demand in the European automotive industry but also from higher start-up costs at the Cartersville, Georgia, USA, plant. A negative non-recurring effect of EUR 0.7 million impacted earnings in the second quarter of the business year 2018/19 due to an adjustment in the provisions for long-service bonuses (see the Notes for details). This is the backdrop against which the Metal Forming Division posted EBITDA for the second quarter that is 19.2% lower than in the previous quarter. Specifically, it fell from EUR 84.4 million (margin of 11.3%) in the first quarter of the business year 2018/19 to EUR 68.2 million (margin of 9.8%) in the second quarter. EBIT dropped by 30.5% between the first and the second quarter of the business year 2018/19, from EUR 55.7 million (margin of 7.5%) to EUR 38.7 million (margin of 5.6%).

As of September 30, 2018, the number of employees (FTE) in the Metal Forming Division was 12,052 or 4.8% higher than the past year's figure of 11,498. This increase is due primarily to the international expansion of the division's automotive activities. Compared with the figure (12,003) as of the end of the business year 2017/18, there has been a marginal increase by 0.4% in the number of employees.

INVESTMENTS

At EUR 474.6 million, the investment expenditures of the voestalpine Group in the first half of the business year 2018/19 surpassed those of the same period the previous year (EUR 337.9 million) by 40.5%. This increase is due for the most part to the Steel Division's major overhaul of its blast furnace A between June and September 2018 at a total cost of some EUR 180 million. While the High Performance Metals Division also saw increases stemming from necessary preliminary work in connection with the construction of the new special steel plant in Kapfenberg, Austria, the investment volume of the two other divisions more or less matched that of the previous year.

The Steel Division's investments in the first half of the business year 2018/19 were dominated by the comprehensive repairs of blast furnace A, which had been prepared for a long time; this blast furnace accounts for about two thirds of the entire pig iron production at the Group's Linz site. As a result, the division's investment expenditure of EUR 91.2 million in the first half of the business year 2017/18 more than doubled to EUR 206.8 million in the current reporting period. During the repairs, which took three and one half months, not only the insides of the blast furnace but also all of its other elements (including the measurement and control technology; the gas cleaning system; the central blower as well as the media and cooling units) were overhauled in toto. The facility's high technical standard makes a major contribution to the better use of resources as well as to the optimized use of materials and thus to greater efficiency and ongoing improvements in profitability. The steel plant used the steep decline in the production of pig iron during the blast furnace repairs to replace portions of the crane track girders, which had seen better days.

The investment expenditure of the High Performance Metals Division in the first half of the business year 2018/19 was EUR 102.0 million and thus 42.9% higher year over year (EUR 71.4 million). The groundbreaking ceremony that took place in Kapfenberg on April 24, 2018, launched the construction of a new special steel plant. The preparatory work was carried out according to plan, and the tenders for the facilities' control systems have also been awarded in the meantime. Kapfenberg also saw the launch of the pilot operations of a high-tech forging press, which will be used to form nickel-based alloys that are destined for aircraft engine components. A new sheet rolling mill was started up at the Group's Mürzzuschlag site in Austria, making voestalpine the first supplier in Europe capable of producing titanium sheet for the aerospace industry. In the Value Added Services business segment, the Group's Houston, Texas, USA, site invested in a processing center for the oil and natural gas industry, which was launched in July 2018.

At EUR 65.4 million, the investment volume of the Metal Engineering Division in the first half of the business year 2018/19 was about the same as the previous year (EUR 64.9 million). There were no problems assuring supplies of high-quality pre-materials to the finishing operations during the summer while one of the two blast furnaces in Donawitz, Austria, was being repaired. Also in the Metallurgy business segment, currently a four-strand continuous casting facility equipped with fully digitalized process controls is being built at the same site; the work on the foundation has already been completed. The facility itself, which has a capacity of 950,000 tons, will be assembled next spring. This should make high-quality pre-material in the form of high-purity steels available for the division's finishing operations as planned from the second half of the 2019 calendar year.

At EUR 95.1 million, the Metal Forming Division invested 8.9% less in the first half of the business year 2018/19 than in the first six months of 2017/18 (EUR 104.4 million). The international rollout of product innovations that are developed in house with respect to automotive components based on long-term partnerships with customers continued in the current business year. The launch in August 2018 of the mass production of autobody and structural components in Aguascalientes, Mexico, is a response to the strong growth of the automotive market in this country. An automotive site that is specialized on the production of tube components was launched in Zacatecas, Mexico. In Tianjin, China, which is near Beijing, the Metal Forming Division built an assembly plant in the immediate vicinity of the production facility of a well-known European automotive manufacturer that is currently being started up.

BUSINESS TRANSACTIONS WITH ASSOCIATED COMPANIES OR PARTIES

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

RISK MANAGEMENT

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

The risk environment of the voestalpine Group in the first six months of the current business year as well as compared with the previous years has remained largely unchanged. Material fields of risk (such as the availability of raw materials in the required quantity and quality; the loss of critical production facilities; the loss of critical IT systems; the CO_2 issue; knowledge management; or financial risks) and the respective precautionary measures thus have remained largely the same. The material fields of risk, including the associated measures to minimize risk, which are presented and described in detail in the Annual Report 2017/18 of the voestalpine Group (Annual Report 2017/18, "Report on the Company's Risks") thus remain valid at the time this semi-annual Management Report for the current business year was prepared.

There were no changes with respect to the disclosures in the Management Report for the business year 2017/18 regarding the Austrian energy tax rebate. Note in this connection that the Austrian Federal Finance Court *(Bundesfinanzgericht)* has directed a request for a preliminary ruling to the European Court of Justice (ECJ) (BFG 10/31/2014, RE/5100001/2014). The amendment of the Austrian Energy Tax Rebate Act *(Energieabgabenvergütungsgesetz)* by means of the 2011 Austrian Budget Accompanying Act *(Budgetbegleitgesetz (BBG 2011))*, which applies to periods after December 31, 2010, limited the energy tax rebate to manufacturing companies. Subsequently, the question as to whether this restriction, which may be deemed state aid, violated European Union law was submitted to the ECJ for a preliminary ruling; the highest court actually answered the question in the affirmative (ECJ 7/21/2016, docket no. C-493/14, Dilly's Wellnesshotel GmbH). This means that the restrictions envisioned in the BBG 2011 have not taken effect. Therefore, service providers, in particular, can retroactively apply for the energy tax rebate for periods after February 1, 2011. In its subsequent ruling, the Austrian Federal Finance Court declared that the restriction to manufacturing companies did not take effect. The Austrian fiscal authorities appealed this decision to the Austrian Higher Administrative Court *(Verwaltungsgerichtshof)*, which in September 2017 (Decision dated 09/14/2017, EU 2017/0005 and 0006-1) again sought recourse with the ECJ. No adverse effects are anticipated for the voestalpine Group from this approach.

Based on the insights gained from the economic and financial crises in the recent past and their effects on the voestalpine Group, in recent years additional—primarily corporate—measures were taken to minimize the Group's risk exposure, which are also described in detail in the Annual Report 2017/18, and these measures have been and are being consistently implemented in the current business year. In a complex economic environment, any fallout from the Brexit decision is monitored and analyzed on a continuous basis. The developments in the wake of the (punitive) tariffs and their ramifications for the voestalpine Group are also subject to continuous monitoring.

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

It must be stated that, as of the date of this semi-annual Management Report for the current business year, the risk exposure of and resulting uncertainties in the voestalpine Group are limited

and manageable and do not threaten the continuation of the Group as a going concern. Considered from our current vantage point, there are no such threats to the Group in the future, nor are any such risks discernible as of the semi-annual reporting date.

OUTLOOK

The economies of some regions were subject to increasingly fragile growth momentum toward the end of the first six-month period of the business year 2018/19; in Europe, this development was increasingly intensified by the growing price volatility in the energy sector and not least with respect to CO_2 emissions certificates.
Currently, however, the accumulating negative effects from distortions of the international trade flows as a result of the protectionist trade policies of a growing number of countries are giving rise to macroeconomic concerns, as is weakening demand in individual industrial segments and economies. Hence the "Worldwide Harmonized Light Vehicle Test Procedure" (WLTP), which went into effect in Europe on September 1, 2018, continues to create considerable uncertainty among automotive manufacturers and potential buyers alike—with the corresponding effects on the markets. Important regional developments outside of the European Union include the recent noticeable slowdown in China's economic growth.

Operationally speaking, during the summer Europe was confronted with considerable additional difficulties in that a drought caused the water levels of rivers to drop so low that practically all navigation routes for ships were, and in part still are, faced with increasing logistical challenges that affect both incoming and outgoing freight. voestalpine, for its part, has had to and must still contend with additional reductions in earnings owing to both start-up costs in excess of budgeted costs at the Group's North American automotive sites and unplanned production stoppages at the HBI facility in Texas, USA, due to flooding and a gas pipe rupture.

As already described in the ad hoc report dated October 24, 2018 ("voestalpine with second quarter below market expectations, adjustment of earnings expectations for business year 2018/19"): Contrary to expectations at the start of the current business year, it will not be possible against this backdrop and given the available numbers for the first half of the current business year to repeat the record results that were achieved in 2017/18, due especially to the reduction in earnings from the complete overhaul of the Group's largest blast furnace during the summer months. Given these internal and external facts, it will no longer be possible to largely offset this negative effect through other positive effects, as initially planned.

Based on the current development for the business year 2018/19, therefore, we expect a profit from operations (EBIT) of just under EUR one billion and an operating result (EBITDA) of just under EUR 1.8 billion.