MANAGEMENT REPORT 2017/18

This Consolidated Management Report refers to the Consolidated Financial Statements, which were prepared in accordance with the International Financial Reporting Standards (IFRS) as mandated by Section 245a (1) of the Austrian Commercial Code (UGB).

CORPORATE GOVERNANCE REPORT

The (consolidated) Corporate Governance Report for the business year 2017/18 was published on the voestalpine AG website under the heading "Investors."

» The full link is http://www.voestalpine.com/group/en/investors/corporate-governance

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

Considered in global economic terms, all countries pivotal to the voestalpine Group developed along a positive trajectory in the business year 2017/18. Economic growth in Europe, for example, accelerated substantially compared with the previous year and even surpassed that of the United States which, after slightly weaker growth in 2016, also succeeded in gaining new momentum. China, too, continued along its solid growth course despite expectations to the contrary and, after four years of recession, even Brazil turned the corner and returned to expansive economic growth.

This positive picture of economic development, which is rarely so uniform across the globe, was not disturbed until the end of the past business year when politics intruded. The "America First" policy, replete with unusually explicit rhetoric on the part of the current US president, first caused turbulence in the international financial markets due to the fears of an imminent global trade war and then led to a dampening of the economic mood; so far, however, no deterioration in real terms has occurred.

EUROPE

While first signs of an upswing already made themselves felt in the business year 2016/17, which were visibly borne along by private consumption in particular, the positive trend solidified in the business year 2017/18 and gained momentum across the board.

This long-awaited, all-encompassing impetus arose primarily from investment-driven industrial growth in almost all sectors. Against this backdrop, the economic forward momentum in Europe also expanded geographically during the year—from the already prospering Central and Northern European member states of the European Union (EU) to almost all EU countries—and led, in the final analysis, to the unexpectedly homogeneous development of the European Economic Area (EEA) on the whole.

Besides excellent domestic demand, Europe's positive economic trajectory was also driven by the prospering global economy, giving further impetus to Europe's export-oriented economy.

Not until the business year's final quarter did leading economic indicators point to a potential slowdown in growth, which had been accelerating continuously until then. With the exception of initial indications at the start of the 2018 calendar year that the economy was overheating, this turn of

events was triggered above all by the increasingly real walling-off trends in the economic policies of the United States which, in turn, led to growing uncertainty about the global economic growth in the future.
Moreover, the negative economic fallout of the Brexit vote in Great Britain clearly made itself felt for the first time in the fourth quarter of the business year 2017/18. Private consumption in particular lost steam, but the construction industry also showed first signs of an economic slowdown since the leave vote.

In a macroeconomic environment that was largely positive nonetheless throughout the business year 2017/18, almost all market segments critical to the voestalpine Group exhibited strong demand growth. The automotive industry succeeded in continuing its upward trend that has been ongoing for several years now, and there was no change in the extremely solid demand from the consumer goods industry. At the same time, the momentum in the mechanical engineering sector accelerated substantially throughout the business year thanks to the increase in industrial investment activities. Demand from the construction industry also began to recover after an extended period of weakness.
Of the sectors in voestalpine's portfolio, the European railway infrastructure sector was less dynamic due to the substantial decline in investments, which triggered not only declining demand for rails but also substantial reductions in prices. Power plant construction in Europe remained as weak as before. No turnaround is indicated for this segment in the foreseeable future, with the result that it is no longer part of voestalpine's strategic core portfolio. The conventional energy sector (i.e. the oil and gas industry), by contrast, showed moderate signs of recovering over the business year, even in Europe.

NORTH AMERICA

Following rather restrained growth in the previous year, the US economy developed considerable momentum in the business year 2017/18 that solidified as the year wore on, just as in Europe.
This trend was driven by the increase in investment activities, especially the easing of conditions in the oil and gas sector. Just as in previous years, private consumption remained robust as a result of consistently solid labor market data along with high hopes that the tax reform would have positive effects. Unlike its European counterpart, however, the US Federal Reserve reacted to these positive developments and began to lift interest rates incrementally.
While the unusually powerful hurricane season after the summer as well as an extremely cold winter at the turn of the calendar year led to some volatility, the resulting negative impact on the economy was temporary and easily overcome.
The greatest challenge by far not just for the North American economy but also beyond its borders is the protectionist economic policy of the current US president who, besides demanding that the NAFTA agreements be renegotiated, most recently imposed worldwide import tariffs on steel and aluminum based on the argument that the country's national security is being threatened,

thus casting doubt on free global trade—at least as far as these two product areas are concerned. America's ire is directed at Europe, Brazil, and Japan, but particularly at China, whose trade surplus with the US is very large.
While this development has not yet led to a dampening of the global economy in real terms, there has been a substantial increase in the resulting risks to continued economic growth as evidenced not least by the partially massive corrections on the international financial markets.
But the voestalpine Group also benefitted from the largely positive environment of the US's real economy in recent months. Even though the momentum of the country's automotive industry flattened somewhat in the business year 2017/18, the European automotive manufacturers managed to buck this trend and continued to expand their position, enabling voestalpine as their partner to leverage its automotive body parts factories.
Demand from the US aerospace industry remained solid also and the railway infrastructure sector in North America showed some sign of rebounding, given the recovery of the oil and gas sector during the business year's second half.
The first year of full operations at the HBI plant in Texas was characterized by a largely positive market environment, for one, and production losses due to hurricane Harvey and the unforeseen onset of winter, for another.

SOUTH AMERICA

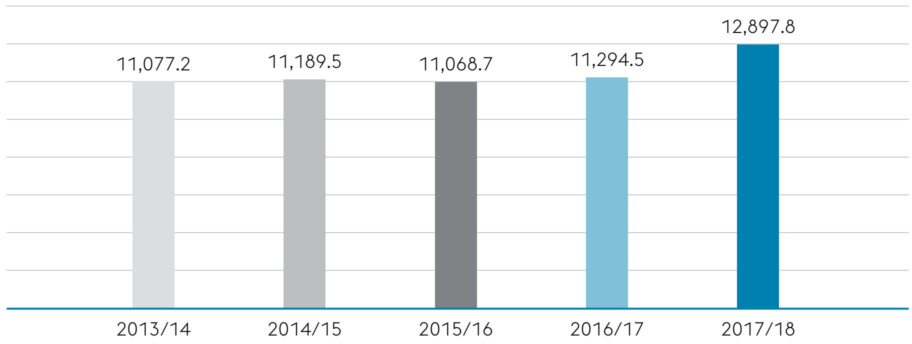
After more than four years of recession that were accompanied by corruption scandals, political instability, and the financial weakness of the public sector, Brazil's economy finally rebounded in the business year 2017/18. The upward trend solidified during the business year, after merely weak signs of a recovery at the start of the year. At first, it was driven by rising private consumption which, in turn, was fueled not just by labor market reforms but also by tax incentives and a small reduction in interest rates. Exports rose slightly as well in the wake of more favorable foreign exchange rates.
While the trend toward private consumption declined again toward the end of the business year owing to the expiration of tax benefits, there was a slight uptick in investment activities for the first time in years. On the whole, therefore, in the past business year Brazil developed along a substantially positive trajectory even though the starting point was fairly low, as to be expected after several years of recession.
Aside from Venezuela above all, a number of other South American countries experienced a turnaround over the past business year, which was borne along by increasing domestic consumption, for one, and by growing private-sector investment activities, for another.
All of voestalpine's sites in Brazil responded to the multi-year downward trend by taking drastic steps to reduce costs and boost efficiency, even making product portfolio adjustments. As a result, they weathered the economic crisis of South America's largest economy and, in the past business year, profited directly from the most recent signs of an economic upturn.

ASIA

The largely stable growth trend in Asia, which has been ongoing for years, especially in China, continued unabated in the business year 2017/18. Not even announcements of and first steps in the implementation of reforms that are related to the environment but also are aimed at reducing massive excess capacities in a number of industries triggered any noticeable weakening of the economic upward trend overall. Finding its stride again right after the New Year celebrations last February, which usually trigger a slowdown in economic activity, China's unbroken momentum has so far continued in 2018 as well.
Although the initial reduction in capacities together with the country's high domestic demand led to a slight decline in the enormous scale of Chinese steel exports and thus an easing of price pressures in the international steel markets, in the past 18 months international economic tensions have intensified at the political level in response

REVENUE OF THE voestalpine GROUP

In millions of euros



to the aggressive export policies China has pursued over many years.
While Europe imposed relatively low and with some time lag anti-dumping duties (after the United States) to protect its own market, subsequently the US went much further and most recently imposed a blanket tariff of 25% on all steel imports to "protect the country's national security" (Section 232); bilateral negotiations have succeeded in exempting the EU and a few other countries from this duty temporarily for the time being. As against China, the US president has addressed not just the inappropriate scale of steel and aluminum exports to the United States but also the general imbalances in the two countries' balance of trade as well as the country's questionable treatment, as he sees it, of foreign intellectual property. Not least the rhetoric chosen to convey these messages generated growing concerns toward the end of the business year that any escalation of this trade conflict would have global repercussions.
The key customer segments for voestalpine in China—automotive industry, railway infrastructure, consumer goods industry as well as oil and gas—developed stably along a good to excellent trajectory throughout the business year 2017/18.

BUSINESS PERFORMANCE OF THE DIVISIONS

Steel Division

The performance of the Steel Division in 2017/18 seamlessly continued the upward trend at the end of the preceding period. voestalpine's steel segment turned in an outstanding earnings performance throughout the business year based on the continued strong demand for highly sophisticated steel products. Just as in recent years, the continued growth of the European automotive industry was the driving force of this development, which also benefitted from the stable demand on the part of the consumer goods industry. To top it off, the revival of the market in the mechanical engineering sector also gathered steam over the year.
High volatility continued to affect the cost of raw materials in the past business year 2017/18, too, but there were far fewer outliers than a year earlier. While comprehensive preparations were already being carried out during the past business year at the site in Linz, Austria, regarding the general overhaul of the largest blast furnace (blast furnace A) and large inventories of semi-finished goods (slabs) have been stored to offset the reduced production volume during the summer of 2018, for the direct reduction plant in Corpus Christi, Texas, USA, 2017/18 was the first year of regular operations. Notwithstanding freak weather such as Hurricane Harvey in the summer of 2017 and an extraordinarily hard onset of winter in Texas at the turn of the year, both of which led to several weeks of downtime, this first year of regular operations was defined by optimization measures that are usually carried out at a new plant but it also showed the plant's high potential in terms of both technology and quality.

High Performance Metals Division

In the business year 2017/18, the High Performance Metals Division succeeded in substantially surpassing its prior year performance. Yet again, the key drivers of this development were both the automotive industry and the consumer goods industry which, compared with the previous year, continued to increase their demand for tool and high-speed steel.

While the aerospace industry's demand for special steel parts remained as high as in the previous periods, 2017/18 saw demand from the oil and gas sector for the division's special products rising again for the first time since its extended period of weakness. Both heavy mechanical and energy engineering remained the weakest area, suffering for yet another year from the uncertainty in Europe's climate policies.

Compared with the previous year, however, the division's pleasingly positive development overall led to a substantial improvement in the division's capacity utilization worldwide.

While the Brazilian Villares plant in Sumaré, above all, finally turned the corner in 2017/18 after hard years of recession, in the course of the business year the United States—the plant's most important export market—announced protectionist tariffs on steel imports. Given the resulting uncertainties, impairment losses of about EUR 10 million on property, plant and equipment were recognized in the Company's current annual financial statements.

For the rest, market developments in the NAFTA region were very satisfactory, and the same applies to Europe and Asia.

Metal Engineering Division

As far as the market is concerned, in the business year 2017/18 the Metal Engineering Division was confronted with the continued challenging environment in the railway infrastructure segment as well as the oil and gas sector's recovery from a low level.

While the weakening trend in the rail segment already became apparent in the previous business year, the downward trend accelerated substantially in 2017/18 and hit bottom in the last business quarter. This development was triggered by shrinking demand in Europe, the division's core market, together with equally weak demand from its traditional export markets. By contrast, the turnout production segment largely succeeded in offsetting the weaker demand in other regions thanks to the outstanding development of the market in Asia.

The oil and gas industry expanded, albeit from a low level, which led to excellent developments in volume terms over the year, but there is still room at the top in pricing terms.

The Welding Consumables segment, which also depends to a significant degree on the business climate in the oil and gas sector, developed along a stable trajectory.

Thanks to the excellent performance of the automotive industry, demand for high-quality wire was very satisfactory, but the division was unable to exploit the market's potential until the final business quarter because the commissioning of the new wire rod mill caused production shortfalls in the year's first business quarters. Impairment losses of EUR 15 million on property, plant and equipment were recognized in the first half of 2017/18 in the sub-product segment of ultra high-strength fine wire, which is used particularly in the solar and photovoltaics industry, due to ongoing market challenges; which has a corresponding negative non-recurring effect on earnings.

Metal Forming Division

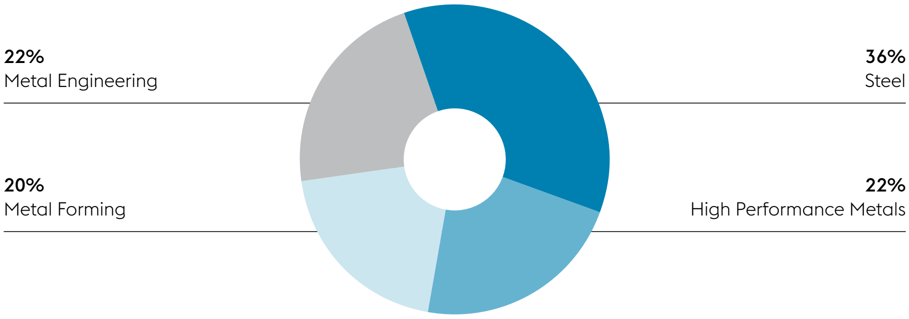
The environment of the Metal Forming Division in the business year 2017/18 was defined by the continued dynamic development of the market in practically all product areas.

This applies especially to the Automotive Components business segment which, in keeping with its international growth strategy, has been increasingly supplying customers in both North America and China besides its European home market. Given that the start-up of many new plants initially generates expenses by definition, these costs had a temporary and manageable adverse effect on the results of this division.

Last year's positive trends in the Tubes and Sections segment continued in the past business year. Special sections for the commercial vehicle and

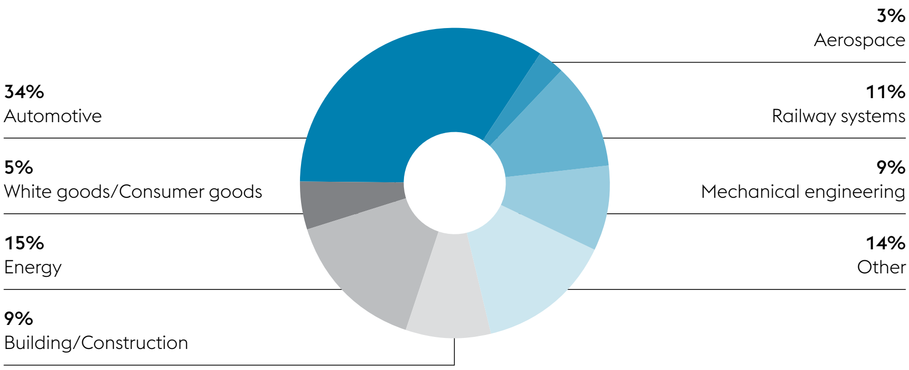
REVENUE BY DIVISIONS

As percentage of total divisional revenue, business year 2017/18



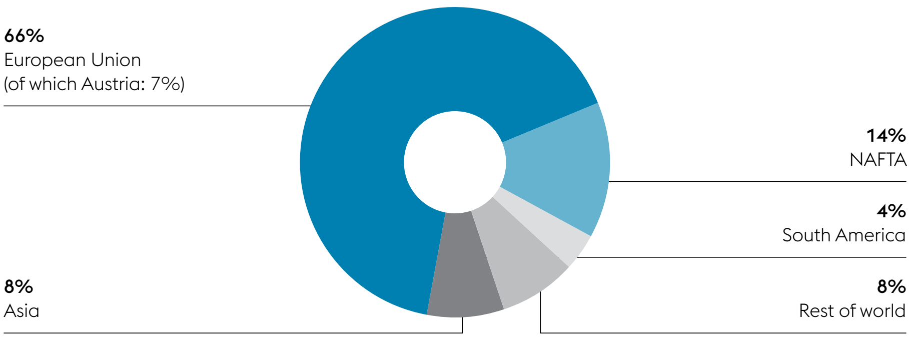
REVENUE BY INDUSTRIES

As percentage of Group revenue, business year 2017/18



REVENUE BY REGIONS

As percentage of Group revenue, business year 2017/18



agricultural machinery segment were in particularly high demand, just as the passive safety component segment (e.g. precision tubes for automotive seat belt tensioners).

The market environment of the Precision Strip segment, which produces precision strip steel for the sawmill industry, for example, was excellent in the past business year, and the Warehouse and Rack Solutions segment benefited from the continued strength of project-based demand for storage technology.

REPORT ON THE FINANCIAL KEY PERFORMANCE INDICATORS OF THE voestalpine GROUP

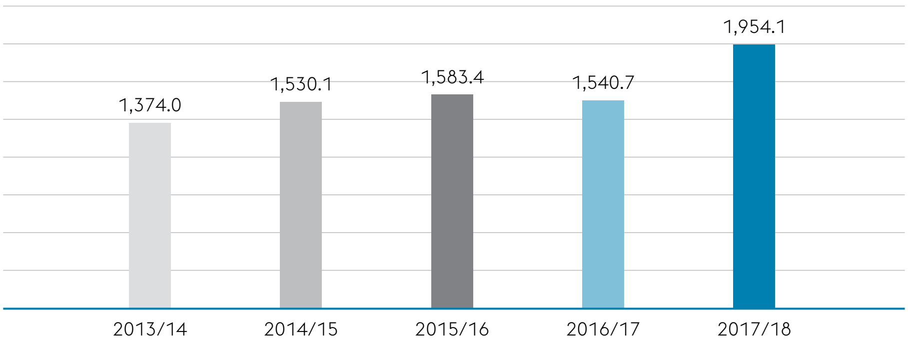
REVENUE AND OPERATING RESULT

The substantial increase in revenue in the business year 2017/18 signifies a turnaround from several years of a largely negative trend in the development of revenue thanks to the voestalpine Group's ability to capitalize both on the sustained positive macroeconomic climate and the investments it had made in the previous years. The Steel Division posted the largest increase in percentage terms, benefiting from significantly improved prices in the face of almost stable volume growth. But significantly higher delivery volumes from the HBI facility in Texas, USA, which has been fully operational since the start of the business year 2017/18, also contributed to this outcome. The higher revenue of the High Performance Metals Division reflects not only the overall improvement in the economic climate but also the gradual recovery of the oil and gas sector. Likewise, substantially higher delivery volumes in this energy segment account for the growth in the Metal Engineering Division's revenue, whereas the revenue from the division's core segment (railway systems) remained more or less at the previous year's level. In terms of revenue development, the Metal Forming Division profited from both the continual expansion of its international activities in the automotive segment and the stable, positive environment in its other three business segments. Given the strong performance of all four divisions, the voestalpine Group boosted its revenue by 14.2% year over year, from EUR 11,294.5 million to EUR 12,897.8 million—an all-time high.

The operating result (EBITDA) for the business year 2017/18 signifies not just a dramatic increase compared with the previous year, but also a level that the Group was unable to achieve even in the boom years preceding the financial crisis. This development is all the more remarkable in that individual economic regions (e.g. South America) but also customer segments (incl. railway infrastructure and the oil and gas industry) still have upward potential, economically speaking. The record result also underscores, however, that the Group made the right investment decisions in the past ten years and that its efforts in connection with the consistent implementation of measures aimed at cutting costs and boosting efficiency paid off. This applies not only, but especially to the Steel Division's outstanding performance. After years of major investments and continuous internal optimization measures, this division has been key to improving the Group's EBITDA by 26.8% to EUR 1,954.1 million in the business year 2017/18 (previous year: EUR 1,540.7 million). In turn, this pushed the EBITDA margin from 13.6% in the previous year to 15.2% in the current business year. The Steel Division capitalized on the positive economic climate by expanding its gross margin even though its delivery volumes remained the same compared with the previous year's high level despite the build-up of pre-materials for the planned general overhaul of blast furnace A in the summer of 2018. The High Performance Metals Division also succeeded in improving its results thanks to both the expansion of its sales volume and the increase in its base prices. For its part, the Metal Engineering Division succeeded in capitalizing on the increasingly positive market environment in the oil and gas sector (seamless tubes) to more than merely offset the price pressure in the rail segment and thus in improving its operating result. The same goes for the Metal Forming Division, whose increase in reporting categories was driven by excellent market develop-

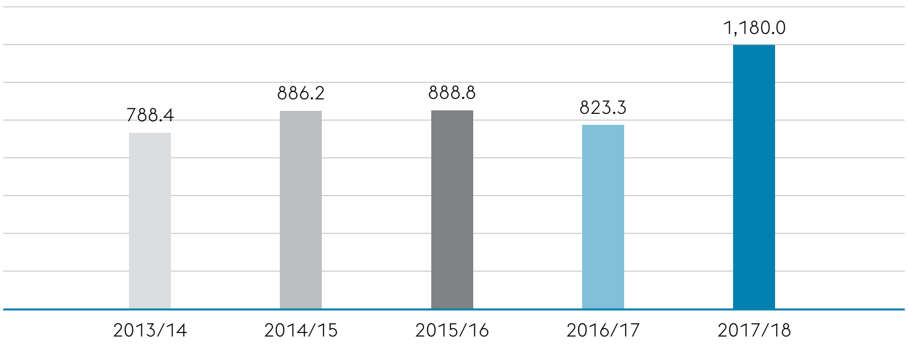
EBITDA

In millions of euros



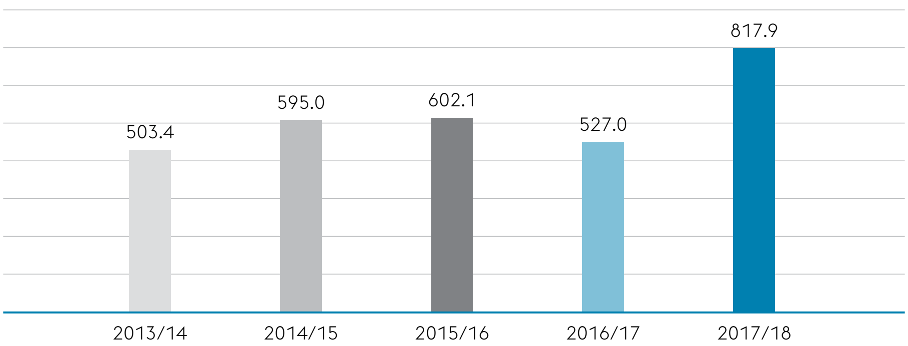
EBIT

In millions of euros



PROFIT AFTER TAX

In millions of euros



ments in general and the outstanding performance of the Precision Strip business segment in particular. A year-over-year comparison by quarter shows not only that the summer and autumn quarters are usually subject to seasonal influences but also that the year's final quarter was the strongest yet again in terms of the result achieved. Historically, this was the second-best quarterly operating result of the Group since the second quarter of 2008/09.

The profit from operations (EBIT) in the business year 2017/18 also presented a positive picture: at EUR 1,180.0 million (margin of 9.1%), it surpassed the previous year's level (EUR 823.3 million, margin of 7.3%) by 43.3%. Due to higher depreciation in the past business year, in absolute terms the EBIT increase is not as strong as that of EBITDA. The increase in depreciation is due, for one, to the commissioning of new facilities and, for another, to EUR 15 million in write-downs on investments in the ultra high-strength fine wire product segment (Metal Engineering Division) as well as EUR 10 million in write-downs on investments in Villares Metals, Sumaré, Brazil (High Performance Metals Division).

PROFIT BEFORE TAX AND PROFIT AFTER TAX

The voestalpine Group also posted excellent numbers for the business year 2017/18 in the profit before and after tax (net income) categories. After gradually declining in recent years, net interest expense rose slightly in the current business year. Nevertheless, the profit before tax jumped 48.9% year over year from EUR 699.9 million in 2016/17 to EUR 1,042.5 million in 2017/18. In contrast to the net interest expense, the tax rate for the same period fell from 24.7% to 21.5%. This boosted the profit after tax by 55.2% from EUR 527.0 million in the previous year to EUR 817.9 million in the current year. Both the profit before tax and the profit after tax are at an all-time high.

PROPOSED DIVIDEND

Subject to the approval of the Annual General Meeting of voestalpine AG on July 4, 2018, a dividend of EUR 1.40 per share will be paid to the shareholders, which corresponds to an increase of 27.3% compared with the previous year's dividend of EUR 1.10 per share. Based on the earnings per share (reported in accordance with IFRS) of EUR 4.40 (previous year: EUR 2.84), this proposal corresponds to a distribution ratio of 31.8% (previous year: 39.0%). Relative to the average price of the voestalpine share of EUR 44.46 in the business year 2017/18, the dividend yield is 3.1% (previous year: 3.3%).

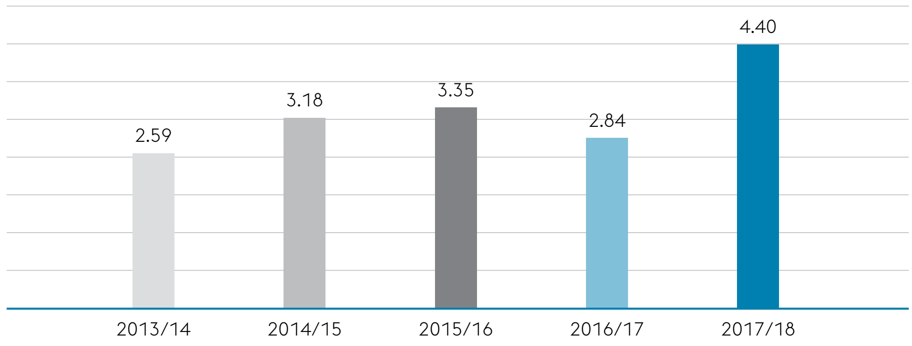
GEARING RATIO

In the business year 2017/18, the voestalpine Group succeeded in further lowering the gearing ratio (net financial debt as a percentage of equity) thanks to the significant improvement in both key performance indicators that affect the level of indebtedness. As a result, net financial debt fell from EUR 3,221.1 million as of March 31, 2017, to EUR 2,995.1 million as of March 31, 2018, despite the substantial increase in working capital. The increase in working capital stems from the substantial increase in inventories, which are partly due to higher raw materials costs (e.g. for scrap and alloys) but mostly due to the build-up of a slabyard in the Steel Division in connection with the repairs of the blast furnace, which will be carried out in the business year 2018/19. Moreover, the working capital also rose due to the general expansion of business activities resulting from the economic upturn as well as the accelerated expansion at international facilities belonging to the Automotive Components segment (Metal Forming Division). The portion of working capital that is related to the blast furnace repairs will be eliminated in the business year 2018/19.

Both the reduction in investment activities and the excellent performance during the current business year have had a positive effect on net debt, with the equity base receiving a substantial boost from the result at the same time. By contrast, the development of the currency parities, particularly the devaluation of the US dollar against the euro, had a negative effect on the equity in the annual financial statements 2017/18. On the whole,

EPS – EARNINGS PER SHARE

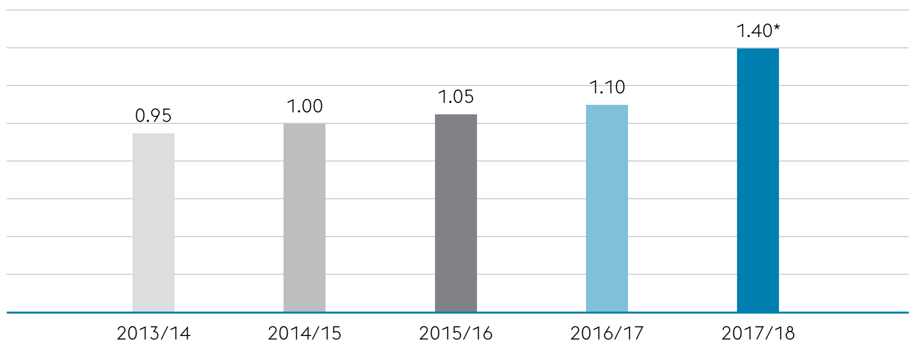
In euros



DIVIDEND PER SHARE

In euros

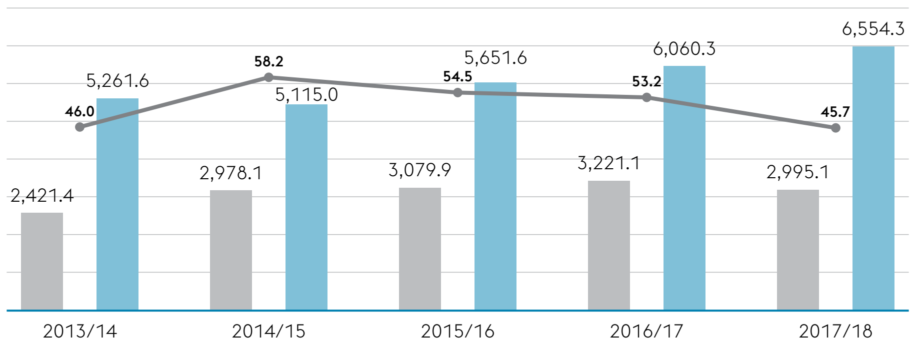
* As proposed to the Annual General Meeting.



NET FINANCIAL DEBT – EQUITY – GEARING RATIO

In millions of euros

Net financial debt Equity Gearing (in %)



equity rose year over year from EUR 6,060.3 million as of March 31, 2017, to EUR 6,554.3 million as of March 31, 2018. Given the aforementioned factors, the gearing ratio declined significantly in the same period, specifically, from 53.2% as of March 31, 2017, to 45.7% as of March 31, 2018.

CASH FLOW

The cash flow from operating activities rose by 3.9% from EUR 1,150.4 million in 2016/17 to EUR 1,195.1 million in 2017/18 despite the significant increase in working capital by a total of EUR 426.9 million in the current business year. While this was rooted in the outstanding earnings performance, the outflow of funds for investments fell yet again, with the effect that the cash flow from investing activities (EUR –847.7 million) is lower than the previous year (EUR –1,049.8 million). The cash flow from Group financing activities is EUR –129.7 million (previous year: EUR –366.7 million). As of March 31, 2018, therefore, the closing balance of cash and cash equivalents is EUR 705.8 million.

Net financial debt can be broken down as follows:

NET FINANCIAL DEBT

In millions of euros	03/31/2017	03/31/2018
Financial liabilites, non-current	2,764.7	2,783.6
Financial liabilites, current	1,332.9	1,315.5
Cash and cash equivalents	–503.3	–705.8
Other financial assets	–348.3	–388.1
Loans and other receivables from financing	–24.9	–10.1
Net financial debt	**3,221.1**	**2,995.1**

QUARTERLY DEVELOPMENT OF THE voestalpine GROUP

In millions of euros					BY		
	1st quarter 2017/18	2nd quarter 2017/18	3rd quarter 2017/18	4th quarter 2017/18	2017/18	2016/17	Change in %
Revenue	3,251.5	3,050.8	3,158.1	3,437.4	12,897.8	11,294.5	14.2
EBITDA	513.8	455.1	436.6	548.6	1,954.1	1,540.7	26.8
EBITDA margin	15.8%	14.9%	13.8%	16.0%	15.2%	13.6%	
EBIT	328.8	255.4	250.4	345.4	1,180.0	823.3	43.3
EBIT margin	10.1%	8.4%	7.9%	10.0%	9.1%	7.3%	
Profit before tax	292.4	221.3	223.5	305.3	1,042.5	699.9	48.9
Profit after tax[1]	218.4	170.5	167.0	262.0	817.9	527.0	55.2
Employees (full-time equivalent)	50,047	50,638	50,658	51,621	51,621	49,703	3.9

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

INVESTMENTS

After five business years during which not just numerous large-scale projects, but also many smaller projects were carried out and investments in property, plant, and equipment as well as in intangible assets and interests regularly exceeded depreciation, an investment consolidation phase aimed at narrowing the gap between investments and depreciation was launched in the business year 2017/18. Specifically, in the business year 2017/18 the voestalpine Group invested EUR 895.2 million and thus 11.5% less than in the business year 2016/17 (EUR 1,011.4 million). For the most part, a balance was achieved in the allocation of these investments among the four divisions.

The **Steel Division's** investment expenditure in the business year 2017/18 was EUR 229.5 million and thus 43.8% less than in the previous year (2016/17: EUR 408.1 million). In this connection, the focus was on the ongoing implementation of the "Linz 2020" investment program, which serves to secure the technology and quality leadership of the Linz-based flat steel facility in the long term. The successful start-up of continuous casting facility 8 in the fourth quarter of 2017/18 was yet another step forward in the expansion of the technology at the steel plant. Combined with the secondary metallurgy system 4, which was already commissioned two years ago, highly sophisticated, vacuum-treated steel accounts for about 80% of the plant's steel production capacity overall. But activities in the Steel Division during the past business year also encompassed extensive preparations for the general overhaul of blast furnace A, which has been planned for a long time and will be carried out between early June and mid-September 2018. A pre-materials inventory of slabs was successively created during the business year 2017/18 to both offset the temporary loss of production volume at the Group's largest blast furnace by far and ensure that customers are supplied with highest-quality steel strip in the summer of 2018.

At EUR 226.4 million, the investment expenditure of the **High Performance Metals Division** in the business year 2017/18 was 26.1% higher than in the same period of 2016/17 (EUR 179.5 million). The decision was made at the end of September 2017 to build a brand-new special steel plant at the traditional site of Kapfenberg, Austria, that will meet all cutting-edge requirements going forward. At a total investment of between EUR 330 million and EUR 350 million, based on the same capacity of 205,000 tons per annum this facility will replace the existing plant in 2021 after a three-year construction period. The Group's leadership in innovation—which it owes to state-of-the-art equipment, the comprehensive digitalization of processes as well as the resulting qualitative optimization of products for the aerospace, automotive, and energy industries—creates the prerequisites for the continued expansion of the division's dominant position worldwide in specialty steels. Current investments in new state-of-the-art production lines at two sites (also in the Kapfenberg area), which will produce pre-material for extremely stress-resilient aircraft components in the future, serve to implement additional projects important to the aerospace industry. In this connection, the construction of a high-tech fast-forging line has already progressed to such a degree that the plant will probably be commissioned before the 2018 calendar year is out, while yet another fully automated forging line will go into production about a year later. Our activities with respect to the cutting-edge, additive manufacturing technology (3D metal printing) also continued in the business year 2017/18. While investments in new facilities for manufacturing metallic powder as the base material for 3D printing at two sites (Hagfors, Sweden, and Kapfenberg, Austria) are ongoing, two additional facilities for producing highly complex metal components by 3D printing were established in Taipei, Taiwan, and Toronto, Canada, to supplement the existing development center in Düsseldorf, Germany. In the Value Added Services segment, among other things the High Performance Metals Division launched the world's largest vacuum hardening furnace in Shanghai, China, for heat treating structural parts used in lightweight automotive construction.

In the **Metal Engineering Division,** the investment volume of EUR 207.5 million in 2017/18 was about the same as in the previous year (EUR 211.0 million). The Group's most extensive investment in recent years is embodied in the world's most advanced wire rod mill in Leoben/Donawitz, Austria, which was officially inaugurated at the end of September 2017. This fully digitalized, high-tech facility is used to manufacture steel-based wires which—in terms of purity, strength, and ductility—conform to the highest technological standard currently achievable. In the future, this facility, which was built at a cost of EUR 140 million, will produce 550,000 tons of wire rod annually for the most sophisticated applications in the automotive, energy, construction, and mechanical engineering industries. In the metallurgical area, the Group's current activities in Leoben/Donawitz, Austria, are focused on the construction of a new continuous casting facility ("CC4") for the production of high-purity steels used in premium rails, quality wire as well as the most sophisticated seamless tubes especially for the oil and gas sector. The foundation work for this new facility with an annual capacity of up to 950,000 tons, which will be commissioned in the second half of 2019, started in the past business year. Currently, we are also investing in a new, additional research facility (the "Metallurgy Center") to further boost the division's innovative power. Fully two projects aimed not just at expanding, but also at increasing the flexibility of production were completed in Kindberg, Austria, in the past business year: the expansion of the seamless tube rolling mill, for one, and the construction of an additional heat treatment line, for another.

In the **Metal Forming Division,** investment expenditures rose in the business year 2017/18 by 6.6% from EUR 205.1 million in the previous year to EUR 218.6 million this year. As in recent years, the division's focus in this connection was on the Automotive Components business segment, in particular, the continued expansion of key technologies related to ultra high-strength automotive components. This resulted in the commissioning of two "phs" hot forming lines in Cartersville, Georgia, USA, during the past business year; a similar facility was launched in Shenyang, China, at the same time. One assembly plant each was built in Aguascalientes, Mexico, and Tianjin, China, in direct proximity to international automotive customers. In Nagold, Germany, the capacities for inline-bonded lamination stacks (compacore®), which are used especially in e-mobility applications, were expanded pursuant to long-term contracts with European automotive manufacturers. Given the continually rising demand for lightweight automotive parts, our investment in two additional laser welding systems, which will be operational in the fall of 2018 and in 2019, respectively, aims to further expand the production of laser-welded blanks in Linz, Austria. The launch of the second facility in the fall of 2016 already made Linz the world's largest "blanks production site"—a status that these investments will underscore.

ACQUISITIONS

Just as in previous business years, the voestalpine Group's acquisition activities in the business year 2017/18, too, were subject to tight limits. In most cases, strategically meaningful acquisitions failed in the face of purchase price demands which were untenable due to the extremely low interest rate environment.

Against this backdrop, in the past business year solely the Metal Forming Division carried out a noteworthy acquisition, specifically, by means of an asset deal. Under this deal, voestalpine Rotec GmbH took over the coating facilities of BARUM Technik, a Romanian company headquartered in Timisoara, Romania. BARUM has been a partner of voestalpine Rotec GmbH for many years in the field of cathodic dip-coating (CDC). By carrying out the coating process itself from now on, the voestalpine Rotec Group is adding yet another step to its value chain.

EMPLOYEES

As of the close of the business year 2017/18 (March 31, 2018), the voestalpine Group had 47,603 employees (excluding apprentices and temporary employees) and thus around 1,737 employees or 3.8% more than as of March 31, 2017. Including the 1,301 apprentices and 3,868 temporary employees, the resulting total is 51,621 full-time equivalents (FTEs); this represents a year-over-year increase in the total headcount of 3.9% (or 1,918 FTEs).
Compared with the previous business year, the headcount of temporary personnel (3,868) represents an increase of 5.1%.
A total of 54.1% of the employees (27,922 FTEs) work at Group sites outside of Austria and 23,699 employees in Austrian voestalpine companies.
As of the reporting date (March 31, 2018), the voestalpine Group was training 1,301 apprentices: 59.5% of them in Austrian companies and 40.5% at sites abroad. Compared with the previous year, the number of apprentices overall has decreased by 19 individuals or 1.4%.

EMPLOYEE PARTICIPATION PLAN

voestalpine has had an employee participation plan since 2001, which has been continually expanded since then. Besides all of the employees in Austria, employees in Great Britain, Germany, the Netherlands, Poland, Belgium, the Czech Republic, Italy, Switzerland, and Romania have a share in "their" company. The expansion of the number of participating personnel at locations abroad continued in the business year 2017/18.
The voestalpine Mitarbeiterbeteiligung Privatstiftung (employee foundation for the Group's employee participation plan) is the second largest shareholder of voestalpine AG. As of March 31, 2018, a total of 25,100 employees have a stake in voestalpine AG through voestalpine Mitarbeiterbeteiligung Privatstiftung. They hold about 22.8 million shares which, due to the general bundling of voting rights, represent 12.9% of the Company's share capital (previous year: 13.6%). In addition, the foundation manages about 2.0 million "private shares" owned by former and current Group employees, which they may freely dispose of; this corresponds to an additional 1.1% of the voting shares. As of March 31, 2018, therefore, 14.0% of voestalpine AG's share capital (previous year: 14.8%) is owned by employees.

THE STAHLSTIFTUNG (STEEL FOUNDATION)

In 1987, the "Stahlstiftung" (Steel Foundation) was founded in Linz, Austria, as an employee fund with the aim of providing not only employees of the VOEST-ALPINE Group (as it was called at the time), who had to leave due to a crisis, but also employees of companies outside of the Group the opportunity to realign themselves professionally while undergoing up to four years of training and continuing education in order to offset or at least alleviate the impact of the job loss.
In the business year 2017/18, more than 88% of the participants looking for work were able to develop a new professional perspective with the help of the Stahlstiftung.
As of the reporting date (March 31, 2018), the Stahlstiftung was supporting a total of 374 individuals, 56.7% of whom were participants from voestalpine Group companies. The total number of active Stahlstiftung participants in the business year 2017/18 was 676, i.e. 12.2% less than the previous year (770 individuals).

APPRENTICES AND YOUNG SKILLED WORKERS

The fifth voestalpine Group Apprentice Day was held at the headquarters of voestalpine AG in Linz, Austria, in October 2017. Three hundred and fifty apprentices from Austria and Germany attended together with their trainers. The event aims to introduce the Group employees in training to as many of their young colleagues from other locations as possible and, at the same time, to give them something of a first-hand overview of the Group.

The Company invests about EUR 70,000 per apprentice in the comprehensive three- or four-year apprenticeship program. In order to efficiently approach potential apprentices, voestalpine has continuously expanded its social media activities via Facebook, YouTube, Twitter, LinkedIn, Watchado, and Instagram in recent years. Using the Job Bot, voestalpine has also been offering an innovative job search option on Facebook since the current business year. By using this chatbot technology, the Company is setting a benchmark in digital HR communications yet again.

The Group's excellent performance in terms of the number of apprentices who complete their programs is creating a solid base of skilled workers for the future: 96.7% of the apprentices who sat for their exams in Austria and Germany in the past business year passed their final apprenticeship exam. Of the Austrian graduates, 58.1% even got "good" or "excellent" grades. At the WorldSkills 2017 Competition in Abu Dhabi (a vocational education and skills excellence championship), the voestalpine apprentices were awarded a "Medallion for Excellence" yet again. During the business year just ended, the voestalpine training center in Kapfenberg, Austria, was awarded the Austrian National Prize for "Best Apprentice Training Companies – Fit for Future" for its forward-looking approach to training. Projects such as the "digital learning factory," which already train our apprentices for the coming digitalization, carried the day with the jury.

For the apprenticeship year 2018/19 beginning in the fall of 2018, voestalpine is offering around 415 new apprenticeships in Austria and Germany alone. This concerns a total of 50 vocational occupations at 40 companies. Every year, many of these companies organize an "Open House" ahead of time where schoolchildren and their parents can obtain information in person on the wide range of training and apprenticeship options.

DEVELOPMENT OF EXECUTIVES

In the business year 2017/18, 254 participants (15.7% of which were women) from 24 countries began their training course in various categories of the voestalpine management development system as part of the Group-wide development of executives or "value:program." It provides training and advancement programs tailored to target groups for all executive levels based on a combination of classroom and online courses, including external programs for postgraduates and those attending business schools. In addition to specialized tasks, focal points include strategy, change management, leadership, compliance, and organization.

OTHER DEVELOPMENT PROGRAMS

In order to foster and boost required employee capabilities and skills in targeted fashion, a number of programs are being offered more or less continually, such as the Purchasing Power Academy, the HR Academy, the China Young Professional Training Program, the Early Career Program in North America, or the High Mobility Pool whose "Generation 2018" just recently started their two-year program.

Numerous other programs and training options in individual divisions and business units complement the Group-wide training and continuing education portfolio for employees.

EMPLOYEE SURVEY

Comprehensive employee surveys are conducted in the voestalpine Group at three-year intervals. The most recent one took place in October 2016, and about 47,000 employees from over 200 companies in 47 countries were surveyed. The generally pleasing findings confirmed the Company's strengths relative to its employees yet again, but also shed light on critical aspects that remain unresolved. The first reporting on the steps taken in response to the survey took place in December 2017 and January 2018. Most of them concern issues such as "information & communication," "professional development options," and "identification/employer."

COOPERATION WITH UNIVERSITIES

Many voestalpine Group companies offer internships for college and university students; one special focus here includes scientific papers by students in cooperation with voestalpine companies. Currently, a total of around 200 masters theses and dissertations are being written in cooperation with the Group.

For several years now, voestalpine has offered students of Emory University (Atlanta, Georgia, USA) a ten-week internship in the Group. In exchange, students of the Johannes Kepler University Linz, Austria, receive a scholarship to Emory University. Under another special program, students enrolled in the international "ACT – Austria, Canada, Taiwan" training course—a joint project of Johannes Kepler University Linz, Austria; the University of Victoria, Canada; and the National Sun Yat-sen University in Kaohsiung, Taiwan—take part in project work lasting several weeks at the Group's Linz site.

There are also numerous educational collaboration projects with the University of Mining and Metallurgy in Leoben, Austria. They range from sponsoring commitments to generate interest among young people in aiming for a degree in a technical field, to the so-called "voestalpine talks" (a collaborative event with all student representatives), all the way to support for the annual "teconomy" student trade fair.

RAW MATERIALS

The prices of the most important input materials—iron ore and coal—for the production of steel in blast furnaces remained volatile even in the business year 2017/18, but the spreads were a lot smaller than in previous years.

The price of iron ore, which is key to the production of pig iron, gradually fell during the first quarter of the business year 2017/18 and lost about one third of its value by the end of June 2017 relative to the start of the business year, with a low for the entire past business year of about USD 55 per ton of fine ore (CFR China) toward the end of the first quarter. Subsequently, the base price of iron ore fluctuated between roughly USD 60 per ton and just under USD 80 per ton. The development of steel production in China played a central role yet again, because China is responsible for about one half of crude steel production worldwide. Both the fairly low quality of the iron ore mined in China and the rising number of resulting mine closings in recent times continue to intensify the Chinese steel industry's dependence on international ore suppliers. Demand in China for high-grade core material such as iron ore pellets (compressed ore) and lump ores is rising sharply for two reasons: to reduce harmful emissions and to boost productivity. As a result, in the past two years this has led to a substantial structural increase in the surcharges for iron ore pellets and lump ores relative to fine ores.

When processed into blast furnace coke, coking coal is the second most important raw material besides iron ore for the pig iron production process and serves as both a source of energy and a reducing agent in order to release the oxygen from the ore-bearing rock. In the business year 2016/17, mine closings in China ordered by authorities as well as a reduction in the annual number of work days in Chinese coal mines triggered a virtual explosion in the price of coking coal. A massive temporary supply shortage arose at the same time due to weather-related logistical problems that affected the transportation of domestic coal from Northern China to other parts of the country. The price fluctuated substantially yet again at the start of the past business year, this time due to a cyclone that paralyzed the railway connections from the important mining areas in Queensland, Australia, to the shipping ports. Subsequently, the price of coking coal remained highly volatile throughout the entire business year 2017/18, fluctuating between a per ton price of USD 140 and USD 250. The year 2017 also saw a turning point in the structural pricing of coking coal in that Japanese steel companies and Australian raw materials suppliers replaced the "benchmark system" (where a major contract largely dictates the general contract price) that had been in place for decades with an index-based pricing system. Besides coking coal for the in-house production of coke, voestalpine also sources blast furnace coke externally, albeit in much smaller quantities. Naturally, the purchase price of coke was more or less as volatile as that of its base product coal. At its peak, the price of one ton of coke (FOB China) on the spot market was USD 380, in contrast to a low in 2017/18 of about USD 250 per ton.

While iron ore is the base material and scrap solely a supplementary material in blast furnace-based steel production, scrap is the primary raw material in the electric arc furnace technology the High Performance Metals Division uses to manufacture special steel. In the past, the pricing curves of iron ore and scrap developed largely in sync with each other, albeit at different levels, but in the business year 2017/18 they began to diverge substantially from each other in that the price of scrap increased much more sharply than that of iron ore—even when accounting for higher surcharges on special grade ores such as lump ores or iron ore pellets. The price of high-value scrap (type E3, Germany) went from about EUR 260 per ton at the start of the business year to more than EUR 300 per ton 12 months later.

The prices of numerous alloy elements used in steel processing soared during the business year 2017/18. Alloys are an important basic element in the production of special steel and thus are an important cost factor for the Group in general and for the High Performance Metals Division in particular. The prices of vanadium, wolfram, and molybdenum rose sharply in 2017/18, while the prices of chromium and manganese trended laterally. As regards nickel, the alloy with the highest value ratio in the alloy portfolio of the division, dramatic changes on the supply side were but one factor that triggered the considerable increase in its price. Although the Indonesian government loosened the prohibition on the export of nickel ores that had been enacted in 2014, the Philippines ordered numerous nickel mines to close for environmental reasons. While a ton of nickel cost less than USD 10,000 on the London Metal Exchange at the start of the business year 2017/18, the price continued to climb over the year to more than USD 13,000 at its close. At some 20%, the increase in the price of zinc (the element utilized mainly in the Steel Division) during the past 12 months is just slightly lower than that of nickel.

RESEARCH AND DEVELOPMENT, DIGITALIZATION

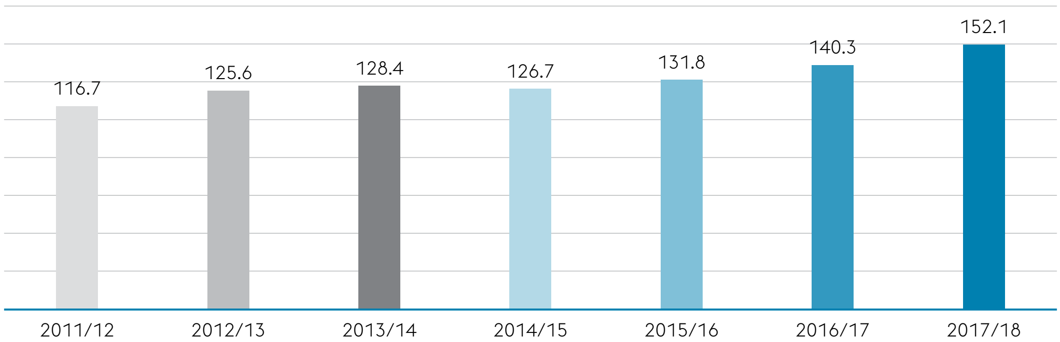
Research and Development (R&D) are a key to voestalpine's long-term corporate strategy. Research expenditures (basis of calculation: Frascati Manual) have climbed continually in recent years. Actual expenses in the business year 2017/18 were EUR 152.1 million. The increase in the budget for the business year 2018/19 by 13.4% to EUR 172.5 million reflects the great importance of R&D to the Group.

The research activities are aimed at the expansion in the long term of the Group's quality and technology leadership—especially in the defined growth industries, mobility and energy—as well as at the ongoing optimization of processes related to energy and raw materials efficiency and the continuous reduction of emissions.
Greatest weight in this connection is given to the holistic analysis of products and processes, i.e. the entire product life cycle, from raw materials to production all the way to recycling.

By developing new steel grades and continually improving existing ones, the voestalpine Group also aims to boost energy efficiency in sustainable ways and thus to reduce environmental pollution in connection with the end products. While this applies mainly to the automotive and aircraft construction sectors, where weight and hence CO_2 emissions can be substantially reduced while continuing to enhance product quality, it also applies to new applications in the energy sector with respect to both conventional and renewable sources of energy.
The voestalpine Group has traditionally and consistently worked to refine processes in view of bringing about an incremental decarbonization of steel production. For now, this is being achieved through "bridging technologies" based particularly on natural gas—e.g. the new direct reduction plant in Texas, USA, where voestalpine is endeavoring to replace coal with alternative sources of energy in the production of steel. This also entails

RESEARCH EXPENDITURE FOR THE voestalpine GROUP

In millions of euros, R&D gross expenditure (without R&D facility investments)



the long-term goal of refining the technology such that direct reduction can be based on hydrogen instead of natural gas. In this connection, currently a hydrogen electrolyzer pilot plant is being built at the Group's steel facility in Linz, Austria, to research the technology and its potential for the production of steel on the basis of hydrogen.
Concurrently with the development of new production methods, existing processes are continually refined with respect to resource conservation and environmental compatibility. This includes projects aimed at reducing the use of primary materials, lowering the use of water, or recycling residues such as slag and dust in environmentally compatible ways.
Rapidly advancing digitalization contributes increasingly to the enhancement of process efficiency and quality. Research & development are a key component of digitalization—and vice versa. We are carrying out intensive research on issues such as model-based controls and adaptive systems, and are translating applications into practice on an ongoing basis. This refers, for example, to the world's first fully digitalized wire rod mill at our steel facility in Leoben/Donawitz, Austria, which was commissioned in the previous year and is now operating successfully in normal mode. The voestalpine "Digitalization Day," a two-day top-class symposium that features lectures by international experts, presented new information and expanded views of what is currently the number one topic in the industry. Workshops were organized to showcase numerous in-house projects, which brought home yet again how deeply digitalization has already taken root in the Group.
Mobility—voestalpine's core segment—was the main topic at the "voestalpine Synergy Platform," which took place for the 11th time this business year. External experts introduced aspects of future mobility and mobility concepts, while in-house experts used numerous examples to show the great extent to which mobility already is a driver of innovation in the voestalpine Group.
Lightweight construction and e-mobility are strategic growth areas in the automotive segment. The lightweight construction of automotive body parts requires the continuous development of ultra-high tensile steels with extraordinary malleability in cold forming processes, for one, and the different hot forming processes based on phs-technology, for another. In this connection, the multi-material competence of voestalpine contributes a great deal to an understanding, both comprehensive and forward looking, of the central concept of "lightweight construction."
Metal-based additive manufacturing is another cutting-edge technology that is rapidly becoming ever more significant to the voestalpine Group. The high-tech steel powders required for it are developed by voestalpine BÖHLER Edelstahl GmbH & Co KG in Kapfenberg, Austria, and by Uddeholms AB in Hagfors, Sweden—specifically, for third-party applications as well as for the voestalpine Additive Manufacturing Centers in Düsseldorf (Germany), Singapore, and Toronto (Canada). Currently, the entire process chain—from production of the powder, to design, to post-product processing—is being analyzed in detail as part of a cross-divisional project. The results will provide the basis for focusing on the most promising applications.
"compacore®," an absolute innovation, has been implemented in the rapidly growing electromobility sector. It connects the voestalpine Group's cross-divisional competence with respect to materials and processing such that in a newly developed process next-level, state-of-the-art electrical steel strip (isovac®) manufactured by the Steel Division is turned into inline-bonded electrical strip steel packages at the Metal Forming Division's facility in Nagold, Germany, which, in turn, makes it possible to build highly efficient and quiet electric motors. In March 2018, voestalpine won the Austrian Special State Prize VERENA that is awarded for cutting-edge innovations in the field of energy efficiency.
In the Metal Engineering Division, following the successful completion of the massive, digital "new wire mill" project, the focus in digital research has turned to optimizing the entire railway turnouts system. "i-switch," an "intelligent" turnout, is currently being developed with the aim of reducing

both failures and maintenance work based on a system that makes it possible to safely control the turnout remotely and perform forward-looking status diagnostics along with relevant maintenance planning.
In this business year, the "voestalpine Steel Research Prize" was awarded for the second time. The work of two voestalpine employees out of a total of 23 high-quality dissertations that had been submitted by international and national candidates won the day. Their papers on the "Malleability and Breakage of State-of-the-Art, High-Tensile Multiphase Steels" (by Marianne Kapp, voestalpine BÖHLER Edelstahl GmbH & Co KG) and on the "Investigation of the Effects of a Turnout Zone on the Mechanical Properties of High-Strength Welds" (by Wilhelm Maurer, voestalpine Stahl GmbH) were deemed equally excellent.

ENVIRONMENT

ENVIRONMENTAL EXPENDITURES

The ongoing operating expenses of the voestalpine Group for environmental systems in the business year 2017/18 rose from EUR 231.5 million a year earlier to EUR 257.7 million; at about EUR 40 million, investments were as high as in the previous years.

ENVIRONMENTAL FOCUS AND MEASURES

All of our efforts at bringing about sustainability are centered on the permanent optimization of process-related emissions and the continuous improvement of resource efficiency.
Hence the most important investment projects of the Steel Division with respect to environmental issues in the business year 2017/18 concerned a new water processing facility including the associated measurement and control technology and the requisite cooling water system; optimizing the use of steel mill gas; regenerative afterburning in connection with the drying of coal for the pulverized coal injection (PCI) facility in the blast furnace area; as well as various measures aimed at improving dust collection and dedusting (e.g. in connection with continuous casting and the coking plant). We also continued to work on the environmental project of the century, i.e. the "coking plant remediation."
Environmental measures at the Metal Engineering Division focused principally on issues related to the blast furnace and sintering plant with the aim of reducing diffuse dust emissions by some 15 tons per year. Among other things, this includes the installation of a new misting system in the coke unloading area, the expansion of the local dedusting system in the coke and coal unloading area as well as the improvement of existing jetting systems at various conveyors. The High Performance Metals Division commissioned a new oil spray extraction system in Böhlerwerk, Austria, for example, which eliminates the oil and/or emulsion mists that arise in connection with profiling during the heat treatment and milling processes.
The Metal Forming Division implemented a number of environmental measures particularly at its facilities in China, among them systems serving to combat dusts containing phosphorous and ammonia and/or the associated pollution of surface water. This so-called Air Brewing System, which comprises a novel process for collecting the pollutants as well as diverting and vaporizing four tons daily of wastewater containing phosphorous followed by reprocessing, has a removal efficiency of 95%.
The energy self-sufficiency through renewables of the Company's sites is consistently being expanded wherever there are adequate roof surfaces that satisfy the given structural requirements and offer economically viable options for using the generated energy. At the Kapfenberg site in Austria, for example, buildings were equipped with photovoltaics as part of a collaborative project with industrial partners. The expected output corresponds to the annual needs of up to 300 households. The feeding of the energy into the grid was agreed with a regional utility.

ECOLOGICAL PRODUCT CONSIDERATIONS

The potential of steel as a material and/or of products made of steel and hence their life cycle assessment, i.e. the comprehensive ecological assessment of materials, is one of the linchpins of our environmental activities. In the past business year, additional projects were implemented or fleshed out, for example, with customers in the automotive or railway infrastructure industry. Besides preparing Environmental Product Declarations (EPD) and participating in the preparation of data sets, e.g. in cooperation with worldsteel (the World Steel Association), this also includes Group-wide activities regarding our water footprint.

ENVIRONMENTAL MANAGEMENT SYSTEMS

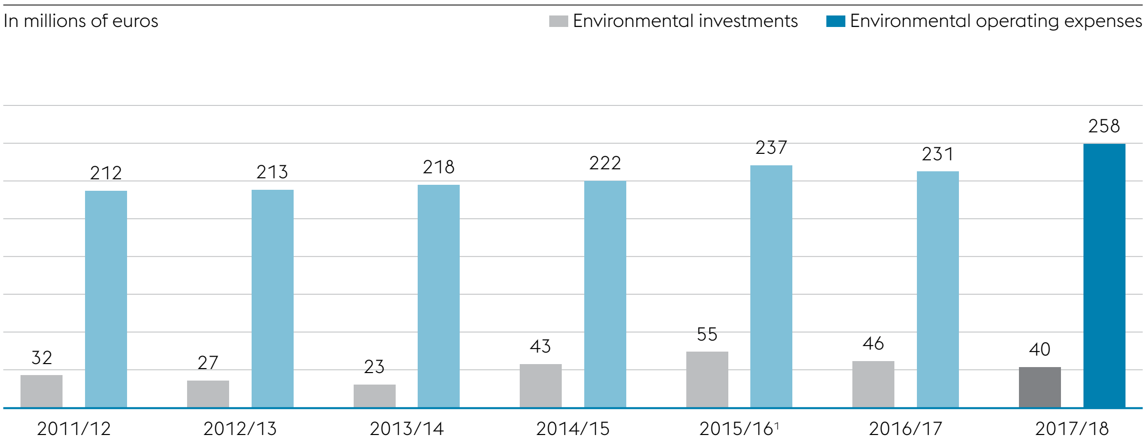
Of the approx. 130 production-oriented Group companies worldwide listed in the environmental data management system, about 60% have an environmental management system (EMS) pursuant to ISO 14001, about 15% have also been validated under the EU's Eco-Management and Audit Scheme (EMAS), and more than 20% utilize the energy management standard pursuant to ISO 50001. ISO 14001 is currently being implemented at the Group's facility in Corpus Christi, Texas, USA, among other sites.

Besides operating/corporate issues, decisions on long-term energy and climate policies at the global, European, and national level as well as on the resulting planning options available to the Company have been and are at the heart of the Group's environmental activities. Through a coordinated dialogue with stakeholders, in this connection voestalpine actively participates at several levels, both directly and via advocacy groups, in the political opinion-forming and decision-making process. The goal is to shape the political parameters that are key to the Company in ways that create a balance between long-term societal, social, and economic interests.

ENERGY AND CLIMATE POLICY

The world climate agreement of the United Nations, which has taken effect by now, provides the framework for both the European and the national polity to act in respect of energy and climate policy and will replace the Kyoto Protocol from 2020 as the global climate protection agreement. In the meantime, the Paris Agreement has been ratified by 175 countries, including the European Union, and is being fleshed out step by step.
The EU and its individual member states have committed to abide by their "2030 Goals" in this connection and have established the "Energy Union" to serve as the framework for energy, climate, competition, and innovation policies. A key action package thereunder—"Clean Energy for all Europeans"—which is intended to address issues such as energy efficiency, expansion of renewables, energy market design, and overarching governance including the preparation

ENVIRONMENTAL EXPENDITURES



[1] In the business year 2015/16, in addition to the emission-intensive Austrian Group sites, a number of other, primarily international, production companies were included.

of national energy and climate plans, is currently in a "trilogue" between the Commission, the Council, and the Parliament of the European Union. In the Company's view, the global competitiveness of the European economy as a whole (and not just of individual sectors) must always be central to the decisions at that level.

The reform of the EU emissions trading system for the 2021 to 2030 trading period was finally adopted at the end of 2017. Despite an official carbon leakage protection level of 100% which, in actual fact, is insufficient due to systematic deductions, in our current estimation the voestalpine Group's future needs for additional credits will correspond more or less to those in the current trading period, i.e. about one third of the Company's total CO_2 emissions. Aside from speculative aspects of the certificates market, the most recent price developments with respect to emissions trading certificates lead us to believe that, as a result of the decision, the voestalpine Group will be saddled with a rapidly growing financial burden in the future. In the business year 2017/18, the "CO_2 price" shot up from EUR 4.86 to EUR 13.26 and thus by 172.8%, an increase that occurred largely after the date on which the resolution on the emissions trading reform was adopted.

At the national level, finally, voestalpine is part of a comprehensive stakeholder dialogue on the "Integrated Energy and Climate Strategy," which was being decided upon politically at the time this annual report was prepared.

THE H2FUTURE PROJECT

In order to support the development of energy management as it relates to the production of steel in the long term against this backdrop, at this time the currently largest and most advanced electrolyzer plant for the generation of "green"—i.e. CO_2-free—hydrogen is being built at voestalpine's Linz, Austria, site. Starting in 2019, the possibilities for using "green" hydrogen in the different process stages of steel production as well as the interaction with the grid's electricity balancing market will be tested in the flagship project named "H2FUTURE – green hydrogen" that is being undertaken by the Fuel Cells and Hydrogen Joint Undertaking (FCH JU) as part of the EU's "Horizon 2020 Program" and has a total investment volume of EUR 18 million. Besides voestalpine, the project also involves VERBUND as the provider of electricity from renewable sources; Siemens as the technology provider of the electrolysis module that was newly developed for the H2FUTURE project; the transmission system operator Austrian Power Grid (APG) as well as the scientific partners K1-MET and the Energy Research Centre of the Netherlands (ECN). After having been officially launched at the beginning of 2017, the construction work started in early 2018 once the construction permit was granted and has been largely completed by now such that the installation of the key electrical components is slated for the summer of 2018 and the commissioning for the end of 2018. The start-up of the extensive, two-year pilot program, which will run until about the middle of 2021, is planned for the spring of 2019.

A program entitled "Sustainable Steel" (SuSteel), which serves to develop a novel hydrogen plasma technology for the smelting reduction of iron ores and thus the direct production of steel from ore, is also being pursued at voestalpine. In this case, hydrogen plasma is to be used for reducing the oxides and the plasma energy for the smelting of the metallic iron. The fundamental feasibility of manufacturing steel directly from iron oxides by way of hydrogen plasma has already been tested and confirmed in bench-scale tests. To push the development for purposes of broader technological adoption, currently a pilot plant for the incremental adaptation of components and component groups is being built in Leoben/Donawitz, Austria.

REPORT ON COMPANY RISK EXPOSURE

Proactive risk management, as it has been understood by and practiced in the voestalpine Group for many years, serves both to ensure the existence of the Group as a going concern in the long term and boost its value and thus is key to the success of the voestalpine Group on the whole.
The voestalpine Group has had a comprehensive risk management system since the business year 2000/01, which is rooted in a general policy that applies throughout the Group and has been updated and expanded repeatedly since then.
In accordance with the Austrian Company Law Amendment Act of 2008 *(Unternehmensrechts-Änderungsgesetz)* and the associated increased importance of the internal control system (ICS) and the risk management system, an Audit Committee has been set up at voestalpine AG which, among other things, addresses questions related to risk management and the internal control system as well as the monitoring thereof on an ongoing basis. Both the risk management and the internal control systems are integral components of the existing management systems within the voestalpine Group. The Internal Auditing department monitors the operational and business processes as well as the ICS and, as an independent, in-house department, also has full discretion with respect to the appraisal of the audit results.
The systematic risk management process assists management in recognizing risks early on and initiating appropriate action to avert or prevent dangers. As is proper in shareholder value management, risk management is an integral part of the business processes; it covers both the strategic and the operational levels and thus is a material element of the Group's sustainable success.

Strategic risk management serves to evaluate and safeguard the strategic planning for the future. The strategy is reviewed as to its conformity with the Group's system of objectives in order to ensure value-added growth by way of an optimum allocation of resources.

Operational risk management is based on a revolving procedure ("identify and analyze, assess, manage, document, and monitor") that is run at least once a year uniformly across the entire Group. Identified risks are appraised using a nine-field assessment matrix that evaluates possible losses and the probability of their occurring. In the main, it documents operational, environmental, market, procurement, technological, financial, compliance, and IT risks. This process is supported by a special Web-based IT system.

The preventive measures for the main risk areas presented in last year's Annual Report are still valid.

» AVAILABILITY OF RAW MATERIALS

In order to ensure the supply of raw materials and energy in the required quantities and quality in the long term, the voestalpine Group has for some years pursued a diversified procurement strategy appropriate to the heightened political and economic risks of this globalized market. Long-term relationships with suppliers, the expansion of the supplier portfolio as well as the development of the Group's self-sufficiency are the core elements of this strategy, which are becoming increasingly important in view of the present volatility on the raw materials markets. (For more details, please refer to the "Raw Materials" chapter of this Annual Report).

» GUIDELINE FOR HEDGING RAW MATERIALS PRICE RISK

An internal guideline defines objectives, principles and responsibilities, in addition to methodology, processes, and decision-making processes for how raw materials risks are handled. Based thereon and taking into account individual specificities of the business model of the respective Group company, prices are hedged by means of delivery contracts containing fixed price agreements or by means of derivative financial instruments. Financial derivatives are deployed to hedge raw materials procurement contracts.

» CO_2 ISSUE

Risks associated with CO_2 are covered separately in the "Environment" chapter of this Annual Report.

» FAILURE OF IT SYSTEMS

At the majority of the Group's sites, business and production processes, which are largely based on complex IT systems, are serviced by voestalpine group-IT GmbH, a company that specializes in IT and that is wholly owned by the Group holding company voestalpine AG. Due to the importance of IT security and in order to minimize possible IT breakdown and security risks, minimum security standards for IT have been developed. These minimum standards are regularly revised and adapted to new circumstances; compliance with these new standards is reviewed annually by way of an audit. Additional periodic penetration tests are carried out in order to further reduce the risk of unauthorized access to IT systems and applications. In the business year just ended, broad online campaigns were carried out to further sensitize our employees to issues of IT security; the topic of cyber security was also addressed at length.

» FAILURE OF PRODUCTION FACILITIES

In order to minimize the risk of breakdowns of critical facilities, ongoing targeted and comprehensive investments are made in the technical optimization of sensitive units. Supplementary measures encompass consistent preventive maintenance, risk-oriented storage of spare parts as well as appropriate employee training.

» KNOWLEDGE MANAGEMENT

In order to sustainably safeguard the Group's knowledge and especially to prevent the loss of know-how, previously initiated complex projects are consistently maintained. Available knowledge is permanently documented on an ongoing basis, while new findings from key projects as well as lessons learned as the result of unplanned events are incorporated accordingly. Detailed process documentation, especially in IT-supported areas, also contributes to securing the available knowledge.

» RISKS IN THE FINANCIAL SECTOR

Financial risk management is organized centrally with respect to policy-making power, strategy determination, and target definition. The existing policies include targets, principles, duties, and responsibilities for both the Group Treasury and the financial departments of the individual Group companies. Financial risks are monitored continuously and hedged where feasible. In particular, this strategy aims to bring about natural hedges and to reduce the fluctuations in both the cash flow and the income. Market risks are largely secured through derivative financial instruments that are used exclusively in connection with an underlying transaction.

Specifically, **financing risks** are hedged using the following measures:

» **Liquidity risk**

Liquidity risks generally consist of a company being potentially unable to raise the funds necessary to meet its financial obligations. Existing liquidity reserves enable the Company to meet its obligations even in times of crisis. The primary instrument for controlling liquidity risk, furthermore, is a precise financial plan that is prepared on a revolving, quarterly basis. The need for financing and bank credit lines is determined centrally by Group Treasury based on the consolidated operating results.

» **Credit risk**

Credit risk refers to financial losses that may arise from the non-fulfillment of contractual obligations by individual business partners. The credit risk of the underlying transactions is minimized to a large degree through credit insurance and bankable securities (guarantees, letters of credit). The default risk for the Group's remaining own risk is managed by way of defined credit assessment, risk evaluation, risk classification, and credit monitoring processes. As of March 31, 2018, 79% of the trade receivables were covered by credit insurance. Counterparty credit risk in financial contracts is managed by way of daily monitoring of the ratings and any changes in the counterparties' credit default swap (CDS) levels.

» Currency risk

The primary objective of foreign currency risk management is to create a natural hedge (cross-currency netting) within the Group by bundling the cash flows. In this connection, hedges are implemented centrally by Group Treasury based on derivative hedging instruments. voestalpine AG hedges the budgeted foreign currency payments (net) for the next twelve months. Longer-term hedging is carried out only in connection with contracted project business. The hedging ratio is between 25% and 100% of the budgeted cash flows within the next twelve months.

» Interest rate risk

voestalpine AG conducts the interest rate risk assessment centrally for the entire Group. In particular, this entails managing the cash flow risk (the risk that interest expenses or interest income may undergo an adverse change). As of the March 31, 2018, reporting date, any increase in the interest rate by one percentage point would result in an increase of the net interest expense by EUR 8.8 million in the next business year. However, this is a reporting date assessment that may be subject to significant fluctuations over time. Interest-bearing investments have also been made, because voestalpine AG maintains a liquidity reserve to ensure the availability of liquidity. In order to avoid any resulting interest rate risk, the interest rate exposure on the asset side, which is expressed by way of the modified duration, is linked to the interest rate exposure on the liability side (asset/liability management).

» Price risk

voestalpine AG also assesses price risk, primarily using scenario analyses for the purpose of quantifying interest and currency risks.

» Compliance risks

Compliance violations, e.g. antitrust and corruption violations, represent a significant risk and may have adverse effects, with respect to both financial losses and damage to the Group's reputation. In particular, we address antitrust and corruption violations by way of the Group-wide Compliance management system, but they cannot be excluded. Regarding antitrust proceedings and allegations, see Chapter 19 in the Notes.

» UNCERTAINTIES STEMMING FROM LEGISLATION

Energy tax rebate in Austria

It must be noted with respect to the Austrian energy tax rebate 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 has by now answered the question in the affirmative (ECJ 07/21/2016, docket no. C-493/14, Dilly's Wellnesshotel GmbH). This means that the restrictions envisioned in the BBG 2011 have not taken effect. Therefore, service providers, in particular, can retroactively apply for the energy tax rebate with respect to periods after February 1, 2011. In its subsequent ruling, the Austrian Federal Finance Court declared that the restriction to manufacturing companies did not enter into effect. The Austrian fiscal authorities appealed this decision to the Austrian Higher Administrative Court *(Verwaltungsgerichtshof)*, which in September 2017 (Decision dated 09/14/2017, EU 2017/0005 and 0006-1) again sought recourse with the ECJ. No adverse impact is anticipated for the voestalpine Group.

ECONOMIC AND FINANCIAL CRISIS

Based on the knowledge gained as a result of the recent economic and financial crises and/or their effect on the voestalpine Group, additional measures—primarily of a corporate nature—were taken in recent years to minimize the risk exposure, and these measures were consistently implemented in the past business year and will be pursued in the coming years too. In particular, these measures are targeted at

» Minimizing the negative effects that a recessionary economic trend would have on the Company by means of relevant planning precautions ("scenario planning");
» Maintaining high product quality along with concurrent continual efficiency gains and ongoing cost optimization;
» Ensuring that sufficient financial liquidity is available even in the event of tight financial markets; and
» Securing in-house expertise even more efficiently than before with a view to continuing the long-term expansion of the Group's quality and technology leadership.

Specific measures to hedge the risks previously identified within the voestalpine Group have been developed and implemented. These measures are aimed at reducing potential losses and/or minimizing the likelihood of losses occurring.

It can be stated that, from today's perspective, the risks of the voestalpine Group are limited and manageable and that they do not threaten the continuation of the Group as a going concern. There is no indication of any future going-concern risks.

REPORT ON THE KEY FEATURES OF THE GROUP'S INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS WITH REGARD TO ACCOUNTING PROCEDURES

In accordance with Section 243a (2) of the Austrian Commercial Code *(Unternehmensgesetzbuch – UGB)*, companies whose shares are traded on the regulated markets must describe the key features of their internal control and risk management system with regard to accounting procedures in their management reports.
It is the responsibility of the Management Board to establish a suitable internal control and risk management system for accounting procedures pursuant to Section 82 of the Austrian Stock Corporation Act *(Aktiengesetz – AktG)*. Therefore, the Management Board of voestalpine AG has adopted guidelines that are binding for the entire Group.
In line with the decentralized structure of the voestalpine Group, the local management of each Group company is obligated to establish and refine an internal control and risk management system for accounting procedures that meets the requirements of that individual company and ensures compliance with existing Group-wide guidelines and regulations.
The entire process, from procurement to payment, is subject to strict and unified Group-wide guidelines that are designed to reduce the risks associated with the business processes to a minimum. These Group guidelines set forth measures and rules for avoiding risk, such as the separation of functions, signature authority rules, and particularly signatory powers for authorizing payments that apply only collectively and are 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. Issuing IT authorizations restrictively supports the separation and/or segmentation of sensitive activities. Accounting in the individual Group companies is largely performed using SAP soft-

ware. The reliability of these SAP systems is being guaranteed by automated business process controls that are built into the system as well as by other methods. Reports about critical authorizations and authorization conflicts are generated automatically.

In preparing the Consolidated Financial Statements, the data for fully consolidated entities is transferred to the unified Group consolidation and reporting system.

The unified Group accounting policies for recording, posting, and recognition of commercial transactions are regulated in the voestalpine consolidated financial statements handbook and are binding for all Group companies.

On the one hand, automatic controls built into the reporting and consolidation system, together with numerous manual reviews on the other are implemented in order to avoid material misstatements to the greatest extent possible. These controls extend from management reviews and discussions of income and expenses for each period to the specific reconciliation of accounts. The summarizing presentation of how the Group reports its accounting processes is provided in the voestalpine AG controlling handbook.

The accounting and controlling departments of the individual Group companies submit monthly reports with key performance indicators (KPIs) to their own managing directors and management boards of the divisions, and, after approval, to the holding division Corporate Accounting & Reporting to be aggregated, consolidated, and reported to the Group Management Board. Quarterly reports include additional information, such as detailed target-performance comparisons, and follow a similar process. Quarterly reports are submitted to the supervisory board, management board, or advisory board of each Group company and a consolidated report is submitted to the Supervisory Board of voestalpine AG.

Besides operational risks, accounting procedures are also subject to the Group risk management. In this context, possible risks regarding accounting are analyzed on a regular basis, and measures to avoid them are taken. The focus is placed on those risks that are regarded as fundamental to the activities of that company. Compliance with the internal control system, including the required quality standards, is monitored on an ongoing basis in the form of audits at the 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 and, subsequently, to the Audit Committee of the Supervisory Board of voestalpine AG.

NUMBER OF OWN SHARES

As of March 31, 2018, holdings of own shares for the purpose of issuing shares to employees and executives of the Company and of affiliated companies under the existing employee stock ownership plan are as follows:

	Own shares in thousands of shares	Percentage of share capital in %	Percentage of share capital in thousands of euros
As of 03/31/2017	**28.6**	**0.0**	**52.0**
Additions in 2017/18	0.0	0.0	0.0
Disposals in 2017/18	0.0	0.0	0.0
As of 03/31/2018	**28.6**	**0.0**	**52.0**

The own shares have been held by the Company for years.

DISCLOSURES ON CAPITAL, SHARE, VOTING, AND CONTROL RIGHTS AS WELL AS ASSOCIATED OBLIGATIONS

At EUR 320,394,836.99, the share capital of voestalpine AG as of March 31, 2018, is unchanged from the previous year and is divided into 176,349,163 no-par value bearer shares. There are no restrictions on voting rights (1 share = 1 vote). voestalpine AG is unaware of any agreements among or between its shareholders and third parties that restrict voting rights or the transfer of shares.

Raiffeisenlandesbank Oberösterreich Invest GmbH & Co OG, Linz, Austria, and the voestalpine Mitarbeiterbeteiligung Privatstiftung (a private foundation for the Company's employee participation plan), Linz, Austria, each hold more than 10% (and less than 15%) of the Company's share capital. Oberbank AG, Linz, Austria, holds more than 5% (and less than 10%).

The Management Board of voestalpine Mitarbeiterbeteiligung Privatstiftung exercises the voting rights of shares held in trust by voestalpine Mitarbeiterbeteiligung Privatstiftung for the employees of the Group companies of voestalpine AG that participate in the employee participation plan. However, the way the voting rights are exercised requires the approval of the Advisory Board of voestalpine Mitarbeiterbeteiligung Privatstiftung. The Advisory Board resolves the approval with a simple majority. It is constituted on the basis of parity, with six members each representing the employees and the employer. The chairperson of the Advisory Board, who must be appointed by the employee representatives, casts the deciding vote in the event of a tie.

As regards the Management Board's powers that do not follow directly from the law such as buybacks of the Company's own shares, authorized or contingent capital, reference is made to chapter 17 (Equity) of the Notes to the Consolidated Financial Statements 2017/18.

The EUR 500 million hybrid bond issued in March 2013; the EUR 500 million fixed-interest securities 2012–2018; the EUR 400 million fixed-interest securities 2014–2021; the EUR 500 million fixed-interest securities 2017–2024; the promissory note loans totaling EUR 514.5 million and USD 100 million; the EUR 900 million syndicated loan executed in March 2015 (which is used for general corporate purposes and to refinance the syndicated loan 2011, EUR 600 million of which is being used as a revolving credit facility to ensure liquidity); as well as bilateral loan agreements for a total of EUR 469.4 million and USD 457.3 million contain change-of-control clauses. With the exception of the hybrid bonds, under the terms of these financing agreements the bondholders or the lenders have the right to demand redemption of their bonds or repayment of their loans if control of the Company changes hands. Under the terms and conditions of the hybrid bond issue, the respective fixed interest rate (interest rate during the fixed-interest periods) and/or the margin (interest rate during the variable interest periods) rise by 5% (five percent) 61 days after a change of control has taken place. voestalpine AG has the right to call and redeem the bonds effective no later than 60 days from the change of control. Under the terms and conditions of the aforementioned bonds and financing agreements, the acquisition by another party of a controlling interest as defined in the Austrian Takeover Act *(Übernahmegesetz)* triggers a change of control at voestalpine AG.

There are no indemnity agreements between the Company and the members of the Management Board, Supervisory Board, or employees in the event of a public takeover bid.

OUTLOOK

Ultimately, the business year 2017/18 ended exactly the way it was forecast in the Outlook section of the annual report 2016/17, specifically, the Group's substantially positive performance in terms of both revenue and results. But the fact that, in the end, all the revenue and results figures for the previous years—including those of the "pre-Lehman era"—were surpassed could not be foreseen a year ago.

Even though the point of departure for 2018/19 looks promising against this backdrop, the geopolitical events in the spring of 2018 underscore yet again that the deck of cards is always reshuffled every business year—and the relevant indicators do contain certain contradictions. Economic growth that has been stable across just about all major industries and countries for the first time in a decade is contrasted by the growth of uncertainty that arises from increasingly protectionist economic policies in ever more regions.

What surprises, however—and not just for the first time—is the global economy's high resilience overall to critical political developments compared with previous years. Neither the blatant attempt on the part of the United States to control economic flows in its sense, nor the permanently growing political and military escalation in the Middle East or the increasingly escalating sanctions carousel between Russia and the West seem to undermine the broad current of economic growth. As before, particularly China and Europe but (with limitations) the United States as well are driving an ongoing upward momentum that is supported by heretofore unknown growth rates in India and new economic traction in Brazil. Nevertheless, the question remains, how long these developments will be sustained by the trust of the capital and financial markets and the willingness of investors to continue funneling funds into these markets.

At the start of the Group's new business year, potential political risks still do not seem to have any palpable effect on at least the fundamentals of the global economy. Demand remains positive in almost all sectors of the economy and customer segments. Many industrial sectors are experiencing strong, worldwide momentum that continues unabated, and this is not expected to change in the coming months because orders on hand are high. This applies, in particular, to the automotive industry, the consumer goods industry, the aircraft construction sector as well as large portions of the mechanical engineering sector; the construction industry is seeing a gradual recovery, not just in Europe. The same goes for the oil and natural gas sector. By contrast, developments in the railway infrastructure segment (especially in the European Union) remain restrained, and demand in the conventional energy generation sector (power plant construction) remains low.

The availability of the primary raw materials used in steel production (iron ore, metallurgical coal, scrap, alloys) should not pose a problem in the new business year despite the booming economy. Judging from developments in the first few months, we may expect prices to trend toward lower short-term volatility than in the previous year, not least due to growing capacities in the mining sector.

In sum, the excellent economic environment in the first quarter of the business year 2018/19 gives us reason to expect that the strong development of key markets will continue unabated at minimum until the fall of 2018. But one must take into account with respect to the earnings performance of voestalpine AG that the results for 2018/19—particularly those of the second quarter—will be massively affected by the long-planned repairs and resulting downtime of the Group's largest blast furnace. Excluding this non-recurring effect, the operating result for the first six months of the current business year should more or less equal that for the first half of the business year 2017/18.

It is much more difficult, however, to provide a forecast for the second half of the business year 2018/19, because material adverse effects from the trade policies of at least some countries will likely make themselves felt by this time. Moreover, the question as to the sustainability of the current economic boom, whose roots reach back to 2016, will also crop up by then.

The uncertainties in the second half of the business year 2018/19 notwithstanding, both EBITDA and EBIT for the year on the whole should correspond more or less to the previous year's level. This is based on the assumption that the negative effects of the blast furnace repairs can be offset largely by positive effects from the recovery of individual sectors (railway infrastructure, oil and natural gas sector) and that the fallout from international trade policies will be limited. The successful ramp up of major facilities in the past 12 months (wire rolling mill in Austria; automotive components plants in the United States, Mexico, and China; HBI-plant in the US; etc.) should have a stabilizing effect on the results as well.

Linz, May 25, 2018

The Management Board

Wolfgang Eder	Herbert Eibensteiner	Franz Kainersdorfer
Robert Ottel	Franz Rotter	Peter Schwab

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