LETTER TO SHAREHOLDERS

1st – 3rd Quarter 2018/19

voestalpine AG
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ONE STEP AHEAD.

voestalpine GROUP
KEY FIGURES

Q 1 – Q 3 2017/18 VS. Q 1 – Q 3 2018/19

In millions of euros	Q 1 – Q 3 2017/18 04/01–12/31/2017	Q 1 – Q 3 2018/19 04/01–12/31/2018	Change in %
Income statement			
Revenue	9,460.4	9,948.6	5.2
EBITDA	1,405.5	1,104.1	–21.4
Depreciation	571.0	578.6	1.3
EBIT	834.6	525.5	–37.0
Profit before tax	737.1	430.6	–41.6
Profit after tax[1]	555.9	275.7	–50.4
Statement of financial position			
Investments in tangible and intangible assets and interests	527.3	679.0	28.8
Equity	6,303.4	6,478.0	2.8
Net financial debt	3,370.1	3,785.7	12.3
Net financial debt in % of equity (gearing)	53.5%	58.4%	
Financial key figures			
EBITDA margin	14.9%	11.1%	
EBIT margin	8.8%	5.3%	
Cash flow from operating activities	561.6	312.4	–44.4
Share information			
Share price, end of period (euros)	49.85	26.10	–47.6
Market capitalization, end of period	8,788.7	4,602.0	–47.6
Number of outstanding shares, end of period	176,320,566	176,320,566	0.0
EPS – earnings per share (euros)	2.95	1.40	–52.5
Personnel			
Employees (full-time equivalent), end of period	50,658	51,472	1.6

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

INTERIM
MANAGEMENT REPORT

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

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

EUROPE

While economic growth in Europe still was largely stable during the first half of the business year 2018/19 despite negative forecasts resulting from the trade conflicts that the United States has triggered, the momentum clearly slowed down in the third business quarter. This not least due to both the increasing general weakness of the market in China, a key export country, and the switch in emissions testing of passenger cars to uniform standards worldwide (i.e. the Worldwide Harmonized Light Vehicle Test Procedure (WLTP)), which had unexpectedly strong effects on automotive production, particularly in Germany.

Add to that the first palpable effects on the real economy of the global trade conflict emanating from the U.S. since the spring of 2018, which increasingly undermined exports even from the European Union (EU) in the final months of 2018. The political differences of opinion between individual EU member states, some of which were aired in public, regarding the bloc's future fiscal policies contributed as little to the creation of a positive economic climate as did the negotiations with Great Britain regarding its exit from the European Union.

In this environment, the voestalpine Group was affected in the third business quarter by declining and volatile demand, particularly on account of its close association with the European automotive industry. The consumer goods and electrical industry started to feel the negative effects of the global trade war during the third business quarter, whereas demand in the infrastructure-oriented market segments (construction industry and railway systems) as well as in the oil and natural gas sector (with the exception of North America) remained largely stable—despite the downward trend in oil prices.

NORTH AMERICA

The by now longest period of economic growth in the history of the United States continued unabated in 2018 as well, even though the economic momentum started to level off somewhat in the year's last calendar quarter. For one, this is due to the fact that in 2018 interest rates rose again for the first time in quite a while and, for another, also to the growing realization that the effects from the country's isolationist policies might harm not just other countries but, in the final analysis, the American economy, too. Notwithstanding the foregoing, the increasingly intense and controversial debates at the political level—triggered by the project (pushed by Republicans) of building a wall at the Mexican border—led to a several-week-long government shutdown in the United States at the end of 2018 that will have negative effects on economic developments in the short term.

Yet the country published excellent economic and labor market data at the end of 2018, fueling the expectation that the positive momentum will continue in 2019 as well.

In 2018, the voestalpine Group succeeded in benefitting from the positive environment overall

in the U.S., especially in the railway systems and aerospace market segments, whereas mechanical engineering and the automotive industry trended laterally for the most part. Despite the volatile development of oil prices—with the exception of temporary signs of weakness in the fourth calendar quarter—demand in the oil and natural gas industry was good, but the voestalpine Group was able to benefit from it only to a limited extent owing to the U.S.'s protectionist tariffs.

CHINA

During the business year 2018/19, the Chinese economy started to suffer increasingly from the effects of the trade war with the United States. While sales volumes in what has become the world's largest automotive market began to decline as early as in the summer, weakening trends on both the consumption and the investment side made themselves felt in the fall. The increasingly protectionist stance of a growing number of countries caused China's exports to decline as well.

China's central government reacted to these developments with a number of stimulus measures, preferably (as usual) in the realm of infrastructure but also in funding.

As far as the voestalpine Group is concerned, this translated, for one, into weaker demand for tool steel for the automotive, mechanical engineering, and consumer goods industry but, for another, also into a substantial increase in demand for products in the railway infrastructure sector.

BRAZIL

While Brazil found its way back to a moderate growth track in 2018 after many years of recession, the upturn failed to meet the high level of expectations at the start of 2018.

This was due to developments inherent in the country itself which, after a number of negative political events, was caught in a presidential election campaign that lasted almost an entire year. But it was also due to external developments such as rising interest rates in the US dollar sphere and the trade barriers being thrown up by the United States (Brazil's most important export market) in the form of import quotas on a number of Brazilian products. Moreover, South America on the whole was adversely affected by critical developments in Venezuela, as well as in Argentina, that continue unabated.

In this moderately improved economic environment overall, the Brazilian sites of the voestalpine Group—which work primarily in tool steel and special materials as well as special sections and railway infrastructure—delivered positive performance throughout the first nine months of the business year 2018/19.

REPORT ON THE FINANCIAL KEY PERFORMANCE INDICATORS OF THE voestalpine GROUP

The revenue of the voestalpine Group rose by 5.2% in the first three quarters of the business year 2018/19 to EUR 9,948.6 million (previous year: EUR 9,460.4 million). All four divisions posted revenue growth. While the increases in the Steel Division and the Metal Engineering Division stem for the most part from higher prices occurring concurrently with slightly lower delivery volumes, the High Performance Metals Division benefitted not just from higher prices resulting from developments related to raw materials (alloys in particular), but also from a slight increase in deliveries. The growth of revenue in the Steel Division, however, results first and foremost from an improved product mix in the Heavy Plate business segment which, in turn, stems from deliveries of high-quality products to the oil and natural gas industry. However, the fact that the quantity structure of the Steel Division did not perform as well year over year is due mainly to the complete overhaul of the most important blast furnace at the Group's Linz site in Austria, which took three and one half months. While the division largely succeeded in cushioning the resulting volume losses on the metallurgy side through pre-production as well as purchases from third parties of semi-finished products for the downstream rolling facilities, the division's deliveries in the first three quarters of the business year 2018/19 dropped by about 10% year over year for reasons related to logistics and production technology. The expansion of the Group's international activities in the Automotive Components business segment, which continues unabated, along with our ability to pass on pre-material price increases, were the main reasons for the revenue growth in the Metal Forming Division.

As far as earnings are concerned, the voestalpine Group had to contend with substantial losses in the current business year, which must be attributed less to a dampening of economic sentiment and more to negative one-time and non-recurring effects in two of the four divisions. Hence the results

of the Steel Division, particularly in the second business quarter, were strongly impacted by the aforementioned unavailability of the Group's largest blast furnace. In addition, the recognition of provisions in the third business quarter for the Heavy Plate segment in connection with a pending investigation by the German Federal Cartel Office *(Bundeskartellamt)* was yet another material factor in the decline in earnings (EBITDA) by one third. Significantly higher-than-planned start-up costs at the automotive site in Cartersville, Georgia, USA, as well as associated provisions related to external shifts in order activity lowered the EBITDA of the Metal Forming Division (cumulatively) by one third, too. The two other divisions, by contrast—High Performance Metals and Metal Engineering—delivered largely stable EBITDA performance year over year. In sum, therefore, the operating result (EBITDA) for the first three quarters of the business year 2018/19 dropped by 21.4%, from EUR 1,405.5 million (margin of 14.9%) in the previous year to EUR 1,104.1 million (margin of 11.1%) in the current year. The profit from operations (EBIT) dropped in the same period by 37.0%, from EUR 834.6 million (margin of 8.8%) to EUR 525.5 million (margin of 5.3%). Here, too, the negative effects relative to the previous year were attributable in toto to the Steel and Metal Forming Divisions, whereas the High Performance Metals and Metal Engineering Divisions remained stable. Considered in absolute terms, the profit before tax declined to an extent echoing EBIT, specifically, by 41.6% from EUR 737.1 million to EUR 430.6 million. Due to a substantial increase in the tax rate—resulting, among other things, from the fact that expenses for the provisions related to the suspicion that the Heavy Plate segment engaged in anti-competitive practices under German competition law are not tax deductible—year over year, the profit before tax even dropped by one half, specifically, from EUR 555.9 million in the previous year to EUR 275.7 million in the first nine months of the current business year.

Equity improved nonetheless in the past 12 months, from EUR 6,303.4 million as of March 31, 2017, to EUR 6,478.0 million as of December 31, 2018. But there was a slight decline in equity compared with the March 31, 2018, reporting date (EUR 6,554.3 million). By contrast, net financial debt rose from EUR 3,370.1 million as of December 31, 2017, to EUR 3,785.7 million as of December 31, 2018. Compared to the March 31, 2018, reporting date (EUR 2,995.1 million), the increase in net financial debt was even more pronounced. The significant increase in net working capital is the material cause of the increase in net financial debt—both year over year and when compared to the reporting dates. In addition, the capital outflows from investments in intangible assets as well as property, plant and equipment during the business year 2018/19 to date substantially exceed depreciation, amortization, and impairment. Consequently, the gearing ratio (net financial debt as a percentage of equity) rose year over year from 53.5% as of December 31, 2017, to 58.4% as of December 31, 2018. The gearing ratio deteriorated even further compared with the March 31, 2018, reporting date (45.7%). For details on the shortfalls in earnings, also see the ad hoc reports dated October 24, 2018, and January 16, 2019.

Given the comprehensive optimization measures that have been launched, it is to be expected from the current vantage point particularly with respect to net working capital that the funding ratios will ease substantially yet again by the close of the current business year.

As of December 31, 2018, the voestalpine Group had 51,472 employees (FTE), an increase of about 1.6% year over year (50,658 employees). This is 0.3% lower than the number as of the March 31, 2018, reporting date (51,621 employees).

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

In millions of euros

	Q 1 2018/19	Q 2 2018/19	Q 3 2018/19	Q 1 – Q 3		Change in %
				2018/19	2017/18	
	04/01–06/30/2018	07/01–09/30/2018	10/01–12/31/2018	04/01–12/31/2018	04/01–12/31/2017	
Revenue	3,469.0	3,205.0	3,274.6	9,948.6	9,460.4	5.2
EBITDA	513.0	347.1	244.0	1,104.1	1,405.5	–21.4
EBITDA margin	14.8%	10.8%	7.4%	11.1%	14.9%	
EBIT	323.8	155.7	46.0	525.5	834.6	–37.0
EBIT margin	9.3%	4.9%	1.4%	5.3%	8.8%	
Profit before tax	294.3	127.2	9.1	430.6	737.1	–41.6
Profit after tax	224.4	91.8	–40.5	275.7	555.9	–50.4
Employees (full-time equivalent)	51,827	51,931	51,472	51,472	50,658	1.6

Net financial debt can be broken down as follows:

NET FINANCIAL DEBT

In millions of euros

	12/31/2017	12/31/2018
Financial liabilities, non-current	2,855.9	2,960.0
Financial liabilities, current	1,854.2	1,309.0
Cash and cash equivalents	–728.1	–280.4
Other financial assets	–583.5	–191.5
Loans and other receivables from financing	–28.4	–11.4
Net financial debt	**3,370.1**	**3,785.7**

STEEL DIVISION

QUARTERLY DEVELOPMENT OF THE STEEL DIVISION

In millions of euros				Q 1 – Q 3		
	Q 1 2018/19 04/01– 06/30/2018	Q 2 2018/19 07/01– 09/30/2018	Q 3 2018/19 10/01– 12/31/2018	2018/19 04/01– 12/31/2018	2017/18 04/01– 12/31/2017	Change in %
Revenue	1,276.4	1,139.2	1,174.5	3,590.1	3,475.0	3.3
EBITDA	223.9	118.5	105.5	447.9	652.2	–31.3
EBITDA margin	17.5%	10.4%	9.0%	12.5%	18.8%	
EBIT	145.0	36.7	19.3	201.0	418.8	–52.0
EBIT margin	11.4%	3.2%	1.6%	5.6%	12.1%	
Employees (full-time equivalent)	11,111	10,972	10,788	10,788	10,879	–0.8

MARKET ENVIRONMENT AND BUSINESS DEVELOPMENT

Demand for steel in Europe consistently developed along a positive trajectory in the first half of the 2018 calendar year. After the summer, however, weakening trends began to make themselves felt in individual customer segments, particularly the automotive industry, and demand lost some of its momentum in the consumer goods industry also. In the final analysis, this caused raw steel production in Europe throughout 2018 to stagnate at the 2017 level. The fact that the introduction of so-called “safeguard measures”—i.e. measures the EU Commission adopted to protect against imports—have been unable to prevent imports of flat steel products from rising over the already high level in 2017 is the backdrop to this development. These measures were enacted in response to the introduction of “protectionist” tariffs by the US Administration in order to prevent negative effects from the diversion of steel products to Europe as much as possible. This is because even though Chinese imports of steel products into the EU have been steadily declining since the 2015 high, they have been more than offset in recent years by imports from countries such as Turkey, India, or South Korea. Yet China’s significance to the development of the market for the raw materials that are key to (blast-furnace-based) production of steel remains high—especially as regards the relevant price trends. On the whole, prices for iron ore, coking coal, and scrap remained volatile throughout the 2018 calendar year, whereas steel prices were largely consonant with the cost of raw materials.

While both quantities and prices in the Steel Division remained at a very pleasing level until the summer of 2018, in part there were considerable declines with respect to order call-ups (especially from the automotive industry) during the fall of 2018 against the backdrop of the new WLTP emissions testing procedure. Slight weakening trends made themselves felt throughout the year in the consumer goods industry as well. Aside from the increasingly difficult market conditions as the year went on, the complete overhaul of the division’s largest blast furnace at its Linz, Austria, site was the determinant of the Steel Division’s performance in the current business year. While drawdowns from the pre-materials (slab) inventory, which had been built up for this purpose, as well as purchases of additional pre-materials helped to ensure good capacity utilization at the rolling mills during this phase, too, the delivery volumes in the first three quarters of the business year 2018/19, however, fell short of the (excellent) numbers in the previous year after all—due, in particular, to the considerable increase in the complexity of operational processes.

Capacity utilization in the Heavy Plate business segment, which was unaffected by the aforementioned dynamics, was solid in the first three quarters of the business year 2018/19 thanks to the segment’s numerous deep-sea pipeline projects. But provisions were recognized in this segment for the third quarter of the business year 2018/19 in view of potentially adverse effects from the pending investigation of the German Federal Cartel Office *(Bundeskartellamt)* on suspicion of anti-competitive practices under German competition law. While voestalpine Texas LLC, Portland,

Texas, USA—which is specialized on the production of high-quality hot briquetted iron (HBI)—experienced a number of (in part planned) plant shutdowns through October 2018 (as already described in earlier quarterly reports), production basically remained stable during the remainder of the third business quarter.

FINANCIAL KEY PERFORMANCE INDICATORS

The development of the key performance indicators (KPIs) of the Steel Division in the first through third quarters of the current business year (as already addressed a number of times) was largely impacted by the overhaul of the division's largest blast furnace, which had associated effects on both production and sales. While the production of crude steel in the first three quarters of the business year 2018/19 fell short year over year by about 25% as a result, the sales volume in the same period declined by about only 10% thanks to both pre-production and purchases of semi-finished goods (slabs). The fact that revenue rose regardless in the first three quarters of the business year 2018/19 by 3.3% to EUR 3,590.1 million (previous year: EUR 3,475.0 million) is due to higher prices overall—resulting in part from higher raw materials prices—as well as an improved product mix in the Heavy Plate segment. Aside from the blast furnace overhaul, the fact that provisions had to be set up in connection with a pending investigation by the *Bundeskartellamt* in the Heavy Plate segment is the other determinant of the significant downturn in earnings for the current business year. Planned and unplanned production stoppages at the HBI plant in Texas, USA, also impacted the development of earnings, especially in the business year's the first six months. Taking all these factors into account, the division's operating result (EBITDA) for the current business year to date dropped by almost one third to EUR 447.9 million (from EUR 652.2 million in the previous year). The EBITDA margin declined year over year from 18.8% to 12.5%. The profit from operations (EBIT) dropped by more than one half in the same period, from EUR 418.8 million (margin of 12.1%) to EUR 201.0 million (margin of 5.6%).
The quarter-on-quarter comparison shows that the Steel Division posted a slight increase in revenue, specifically, by 3.1% from EUR 1,139.2 million in the second quarter of the business year 2018/19 to EUR 1,174.5 million in the third quarter of the business year 2018/19. The operating result (EBITDA) was affected by the aforementioned special items in both the second and the third quarter of the business year 2018/19. This means that the blast furnace overhaul impacted both quarters, albeit the second one significantly more than the third one, and that the provisions in the Heavy Plate segment had an additional negative effect on individual earnings categories in the third business quarter. Against this backdrop, EBITDA fell by 11.0% from EUR 118.5 million (margin of 10.4%) in the second quarter of the business year 2018/19 to EUR 105.5 million (margin of 9.0%) in the subsequent quarter. EBIT for the third business quarter dropped accordingly by 47.4% to EUR 19.3 million (margin of 1.6%), down from EUR 36.7 million (margin of 3.2%) in the preceding quarter.

As of December 31, 2018, the number of employees (FTE) in the Steel Division was 10,788 or 0.8% lower year over year (10,879 as of December 31, 2017). This represents a 2.1% reduction in the number of employees relative to the number (11,020) at the end of the business year 2017/18.

HIGH PERFORMANCE METALS DIVISION

QUARTERLY DEVELOPMENT OF THE HIGH PERFORMANCE METALS DIVISION

In millions of euros

	Q 1 2018/19	Q 2 2018/19	Q 3 2018/19	Q 1 – Q 3		
				2018/19	2017/18	Change in %
	04/01–06/30/2018	07/01–09/30/2018	10/01–12/31/2018	04/01–12/31/2018	04/01–12/31/2017	
Revenue	780.3	765.6	751.4	2,297.3	2,134.9	7.6
EBITDA	129.2	100.6	89.6	319.4	329.0	–2.9
EBITDA margin	16.6%	13.1%	11.9%	13.9%	15.4%	
EBIT	91.9	63.8	51.8	207.5	218.9	–5.2
EBIT margin	11.8%	8.3%	6.9%	9.0%	10.3%	
Employees (full-time equivalent)	14,344	14,528	14,443	14,443	14,049	2.8

MARKET ENVIRONMENT AND BUSINESS DEVELOPMENT

The sentiment in the environment of the High Performance Metals Division, which was promising at the start of the current business year, has gradually darkened over time. As a result, the summer of 2018 saw a decline in tool steel orders in Europe and China—the division's key product segment. For one, this was triggered by the growing protectionist tendencies in global trade and, for another, by economic uncertainty in both aforementioned regions.

By contrast, the oil and natural gas sector developed along a more stable trajectory despite the substantial decline in oil prices over the past few months. Both innovative developments, especially those based on additive manufacturing processes (3D printing), and the creation of new, long-term customer relationships are increasingly enabling the division to gain market share in this industrial segment. Unit sales in the aerospace industry developed along a highly positive trajectory. This was helped along by the most recent investments in high-tech forging facilities for sophisticated aircraft components, which will continue to drive this segment's growth in the years to come.

Although prices in the United States have risen (not least for tool steel) in the wake of the protectionist tariffs that were slapped on steel products, and although the division has been granted substantial exemptions for its products in the meantime, these protectionist policies have forced the division to confront indirect negative effects not just in China but also in other regions. While it profited in Europe from solid order activity in both mechanical engineering and the oil and natural gas sector, here too diversion effects resulting from various countries' trade barriers have intensified competitive pressures. Brazil's incremental recovery has continued despite the negative effects of protectionist tariffs in a number of exporting countries.

Manufacturing was buffeted by ambivalent trends in the first three quarters of 2018/19. Even though capacity utilization in the division's core facilities for premium products was very high over the entire period, optimization measures at the operational level lowered capacity utilization in individual peripheral production facilities during the third quarter of 2018/19. Work on the new special steel plant in Kapfenberg, Austria, where the preparatory stages have largely been completed, continues apace. As a result of the changed market conditions, measures aimed at optimizing warehouse and inventory management were introduced in the Value Added Services segment.

FINANCIAL KEY PERFORMANCE INDICATORS

The High Performance Metals Division boosted revenue in the first three quarters of 2018/19 from EUR 2,134.9 million in the previous year by 7.6% to EUR 2,297.3 million. This is due, for one, to a slight increase in delivery volumes and, for another, to higher prices that stem from the fact that the rising cost of raw materials, particularly alloys, are being passed on to customers. The earnings performance, however, was a bit weaker year over year. While earnings for the first two quarters of the business year were largely on par with the previous year, earnings for the third quarter of 2018/19 were weaker year over year,

particularly due to lower volumes. Specifically, the operating result (EBITDA) fell by 2.9% from EUR 329.0 million (margin of 15.4%) in the first three quarters of the business year 2017/18 to EUR 319.4 million (margin of 13.9%) in the first nine months of the current business year. The profit from operations (EBIT) followed a similar trajectory: it dropped in the same period by 5.2% from EUR 218.9 million (margin of 10.3%) to EUR 207.5 million (margin of 9.0%).
A direct comparison of the second and third quarter of 2018/19 shows that both revenue and earnings declined in the latter. Specifically, revenue fell by 1.9% from EUR 765.6 million to EUR 751.4 million. This was due primarily to the decline in delivery volumes while prices overall rose slightly during the business year's third quarter owing to the increase in the cost of alloys. At EUR 89.6 million and a margin of 11.9%, EBITDA for the third quarter of 2018/19 was 10.9% lower than in the preceding quarter (EUR 100.6 million, margin of 13.1%). EBIT dropped by 18.8% between the second and third quarter of the business year 2018/19, from EUR 63.8 million (margin of 8.3%) to EUR 51.8 million (margin of 6.9%).

As per the close of the third quarter of 2018/19, the High Performance Metals Division had 14,443 employees (FTE), an increase of 2.8% over the same reporting date the previous year (14,049). Relative to the figure (14,274) as of the end of the previous business year, the number of employees has risen by 1.2%.

METAL ENGINEERING DIVISION

QUARTERLY DEVELOPMENT OF THE METAL ENGINEERING DIVISION

In millions of euros				Q 1 – Q 3		
	Q 1 2018/19 04/01– 06/30/2018	Q 2 2018/19 07/01– 09/30/2018	Q 3 2018/19 10/01– 12/31/2018	2018/19 04/01– 12/31/2018	2017/18 04/01– 12/31/2017	Change in %
Revenue	799.8	747.6	771.3	2,318.7	2,239.0	3.6
EBITDA	98.5	85.3	78.4	262.2	261.6	0.2
EBITDA margin	12.3%	11.4%	10.2%	11.3%	11.7%	
EBIT	56.3	44.4	36.7	137.4	123.9	10.9
EBIT margin	7.0%	5.9%	4.8%	5.9%	5.5%	
Employees (full-time equivalent)	13,577	13,512	13,377	13,377	13,267	0.8

MARKET ENVIRONMENT AND BUSINESS DEVELOPMENT

The Railway Systems business segment—which was set up as part of the Metal Engineering Division at the start of the business year 2018/19 to combine all activities related to railway, turnout, and signaling technology under a single roof for the very first time—met with good demand overall in Europe in the first three quarters of the business year 2018/19 even though prices in the rails segment developed along a slightly weaker trajectory overall than those in the other segments. The market launch of a new generation of heat-treated high-performance tracks, which has already started, should enable us in the years to come to achieve greater differentiation vis-à-vis the competition and thus to better shield ourselves from price pressures than we are able to do at present. Owing to the continued expansion of high-speed rail lines, in both the second and the third quarter of the current business year the turnout systems segment profited particularly from excellent market conditions in China despite a period of project-related delays at the start of the business year. Given our extensive activities in the Chinese mass transit sector, this segment is currently collaborating with a well-known local joint-venture partner on the construction and expansion of a second local production facility.

Capacity utilization at the turnout production facilities in North America has been good during the business year 2018/19 to date. While the momentum in the Asian as well as the North American railway sector is developing very well at this time and the fundamentals in the EU are also pointing in the right direction, so to speak, developments in the mining regions are below average; South Africa, in particular, showed little momentum in 2018.

The outlook for the Industrial Systems business segment has dampened somewhat over the course of the current business year due to the downturn in the European automotive industry as well as the growing trade barriers that the U.S. Administration is putting in place. As a result, the momentum in the Wire Technology segment began to weaken substantially starting in the second quarter of the current business year due to European automotive manufacturers' decision to throttle production in connection with the new Worldwide Harmonized Light Vehicle Test Procedure (WLTP). But demand should pick up again from the fourth quarter of the current business year (which corresponds to the first quarter of the calendar year) gradually. By contrast, the growing challenges in the Seamless Tubes segment stem primarily from the introduction of protectionist ("Section 232") tariffs on imports of steel products into the U.S.; with the exception of a temporary weakening in December 2018, however, the general market environment and hence demand remained largely stable. Capacity utilization of the core facilities of the Seamless Tubes segment thus was solid as well in the first three quarters of the business year 2018/19. The Welding Consumables product segment had to contend with stiff price competition throughout the current business year to date even though demand was good. Consequently, this segment is intensifying its focus on measures intended to boost its cost efficiency and develop new business

models as well as expand its collaborative projects with other voestalpine Group companies.

FINANCIAL KEY PERFORMANCE INDICATORS

The key performance indicators of the Metal Engineering Division for the first three quarters of the business year 2018/19 are largely stable compared with those for the first nine months of the previous business year, even though there has been greater differentiation in the recent performance of the individual business segments. In terms of revenue, the division posted an increase of 3.6% from EUR 2,239.0 million in the first three quarters of the business year 2017/18 to EUR 2,318.7 million in the same period of the current business year. The Industrial Systems business segment generated this growth in consequence of both higher delivery volumes of seamless tubes and rising prices occurring in tandem with lower delivery volumes in the wire technology product segment. The welding consumables product segment also boosted revenue year over year. At EUR 262.2 million (margin of 11.3%) for the first three quarters of the business year 2018/19, compared with the previous year's figure of EUR 261.6 million (margin of 11.7%) the division's operating result (EBITDA) is stable. While the operating result of the Railway Systems business segment remained a bit subdued, the wire technology segment succeeded in delivering substantial growth, because the start-up phase of the new wire rod mill generated negative effects in the previous business year. At EUR 137.4 million (margin of 5.9%), the profit from operations (EBIT) in the current business year is 10.9% higher than the previous year's figure of EUR 123.9 million (margin of 5.5%), because the wire technology segment recognized EUR 15 million in impairment losses (negative one-time effect) in the second quarter of the business year 2017/18.

The direct comparison of the second and third quarter of the business year 2018/19 shows that, while the revenue of the Metal Engineering Division rose by 3.2% from EUR 747.6 million to EUR 771.3 million, earnings were unable to keep pace with this development. The earnings uptick in seamless tubes was unable to offset the (partly seasonal) slight decline in the margins of the Railway Systems business segment as well as the more pronounced downturn in the wire technology segment, which resulted from the dampening of economic sentiment in the automotive sector. In sum, EBITDA fell 8.1%, from EUR 85.3 million in the second quarter of the business year 2018/19 to EUR 78.4 million in the third quarter of the business year 2018/19. EBIT dropped by 17.3% in the same period, from EUR 44.4 million (margin of 5.9%) to EUR 36.7 million (margin of 4.8%).

At 13,377, the number of employees (FTE) in the Metal Engineering Division at the end of the third quarter of 2018/19 was 0.8% higher year over year (13,267). Compared with the figure (13,481) as of the end of the previous business year, the number of employees has declined by 0.8%.

METAL FORMING DIVISION

QUARTERLY DEVELOPMENT OF THE METAL FORMING DIVISION

In millions of euros				Q1–Q3		
	Q1 2018/19 04/01– 06/30/2018	Q2 2018/19 07/01– 09/30/2018	Q3 2018/19 10/01– 12/31/2018	2018/19 04/01– 12/31/2018	2017/18 04/01– 12/31/2017	Change in %
Revenue	748.0	697.1	698.3	2,143.4	1,997.8	7.3
EBITDA	84.4	68.2	1.2	153.8	236.3	–34.9
EBITDA margin	11.3%	9.8%	0.2%	7.2%	11.8%	
EBIT	55.7	38.7	–28.8	65.6	152.9	–57.1
EBIT margin	7.5%	5.6%	–4.1%	3.1%	7.7%	
Employees (full-time equivalent)	11,938	12,052	11,983	11,983	11,634	3.0

MARKET ENVIRONMENT AND BUSINESS DEVELOPMENT

Following its solid start into the business year 2018/19, the Metal Forming Division was subsequently confronted with an increasingly difficult environment in key customer segments. Economic sentiment, particularly in the European automotive industry, was dampened over the summer of 2018 due to the new Worldwide Harmonized Light Vehicle Test Procedure (WLTP). The introduction of this testing procedure led not just to more volatile and short-term order activity on the part of automotive manufacturers, but also to lower automotive manufacturing activity overall in the fourth calendar quarter of 2018, with the corresponding effects on the supplier industry. Demand did stabilize after the traditional shutdowns for X-mas, but it is lower than the high level of demand in the same quarter of the previous year. China's automotive market has also seen growing distortions over the course of the current business year, whereas in the United States both production and sales figures remained stable at a high level. The segment of large SUVs in the U.S., which is served not least by the German premium manufacturers, has even seen additional growth. In this connection, the Automotive Components business segment at the Group's Cartersville, Georgia, site in the United States had to contend with massive start-up cost overruns relative to the planning for new production facilities. Earnings were substantially affected, furthermore, by non-recurring effects resulting from external shifts in order activity.
The Tubes & Sections business segment delivered solid performance in the first three quarters of the business year 2018/19 despite average market conditions on the whole. As far as individual sectors are concerned, the performance of the European commercial vehicle industry remained good, and orders from the construction and mechanical engineering industry remained stable. Regionally speaking, the uncertainties in this business segment in the U.K. have continued to intensify during the current business year to date on account of the Brexit vote. By contrast, the market environment in the U.S. was positive as before, especially in the aerospace industry. In Brazil, there has been a slight improvement in economic sentiment compared with the previous year, also in the Tubes & Sections segment.
The economic environment of the Precision Strip business segment deteriorated considerably over the course of the current business year for the first time in years. It has become increasingly difficult to pass on rising alloy prices, not least due to growing competition from Chinese producers. By contrast, the demand for sophisticated storage systems remained robust, particularly with respect to Web-based sales, thus benefitting the Warehouse & Rack Solutions business segment yet again and assuring full utilization of production capacities in the coming business quarters.

FINANCIAL KEY PERFORMANCE INDICATORS

While the Metal Forming Division did post higher revenue in the first three quarters of the business year 2018/19, it had to contend with a substantial drop in earnings. Revenue rose by 7.3% compared with the first nine months of the previous year, from EUR 1,997.8 million to EUR 2,143.4 million. This is due, for one, to the segment's ability

to pass on higher pre-materials costs and, for another, to the expansion of the segment's business activities relating to automotive components. In contrast to the initial planning, however, the Group's international expansion in this segment during the current business year led to significantly higher start-up costs at its Cartersville site in the U.S., which were largely responsible for the decline in the operating result (EBITDA) by more than one third, from EUR 236.3 million (margin of 11.8%) in the first three quarters of the business year 2017/18 to EUR 153.8 million (margin of 7.2%) in the current business year. Non-recurring effects in the form of provisions arising from external shifts in order activity had an additional impact on earnings at the Cartersville site. The business segments, Tubes & Sections and Precision Strip, posted slightly lower earnings year over year in operational terms, whereas the Warehouse & Rack Solutions business segment succeeded in lifting EBITDA yet further. At EUR 65.6 million (margin of 3.1%), the profit from operations (EBIT) for the first three quarters of the business year 2018/19 is 57.1% lower than the previous year's figure of EUR 152.9 million (margin of 7.7%) for the aforementioned reasons.

The direct quarter-to-quarter comparison shows that, at EUR 698.3 million in the third quarter of the business year 2018/19, the revenue of the Metal Forming Division was stable relative to the revenue of EUR 697.1 million in the second quarter of the business year 2018/19. However, as both the start-up costs and the provisions resulting from external shifts in order activity at the Cartersville site have a largely negative effect on third-quarter performance, divisional EBITDA fell substantially from EUR 68.2 million (margin of 9.8%) in the second quarter of the business year 2018/19 to EUR 1.2 million (margin of 0.2%) in the third quarter. This dramatic drop in earnings stems largely from developments at the Cartersville site, because the direct quarter-to-quarter comparison shows that the other three business segments delivered balanced earnings growth. At EUR –28.8 million and an EBIT margin of –4.1%, the EBIT of the Metal Forming Division for the third quarter of the business year 2018/19 is substantially negative compared with the positive EBIT of 38.7 million (margin of 5.6%) for the previous quarter.

As of December 31, 2018, the number of employees (FTE) in the Metal Forming Division was 11,983 and thus 3.0% higher year over year (11,634) due, in particular, to the global expansion of the Group's automotive activities. Relative to the figure (12,003) as of the end of the business year 2017/18, the number of employees has been more or less stable.

OUTLOOK

While the economic climate in the first half of the business year 2018/19 was largely characterized by stability and positive sentiment, the transition to the third quarter of the current business year brought a dampening of the macroeconomic environment in Europe. Among other things, this translated into rising raw materials and energy prices but, above all and for the first time, substantially negative effects resulting from the global trade conflicts—and not least the growing escalation of the conflict surrounding the departure of Great Britain from the EU.

Moreover, the third quarter also saw negative economic trends in key industries that followed the sustained upturn in almost all industrial sectors. For instance, the Worldwide Harmonized Light Vehicle Test Procedure (WLTP), which has been in effect since September 1, 2018, led to considerable uncertainty on the part of both automotive manufacturers and consumers, with the associated effects on market behavior. Demand has peaked in the consumer goods and electrical industries as well. The slumping oil price in the third quarter triggered a temporary weakening in the demand for oil equipment, especially in North America.

At the regional level, China's growth momentum has lost considerable steam in the past 12 months, followed in the second half of 2018 by Europe, whereas the USMCA region remained stable at a high level throughout the 2018 calendar year, and Brazil continued on a cautious growth trajectory not least due to the political changes in the country.

From today's vantage point, not much is expected to change in the coming months with respect to the big picture that prevailed at the turn of 2018/19. A short-term easing of tensions in China's economic climate seems more unlikely than not, but the Chinese government will endeavor to take steps aimed at stabilizing the country's economic growth. In the United States, the positive effects of the tax reforms initiated two years ago should continue for the time being, provided the Federal Reserve refrains from raising interest rates any further as it indicated most recently.

The economic scenario in Europe over the next few months will undoubtedly be dominated by the final procedure—as yet to be determined—regarding the exit of Great Britain from the European Union. If the "hard" Brexit comes to pass, such a scenario would impact the macroeconomic climate in Europe irrespective of economic developments.

Aside from the uncertainties that such a scenario would entail, the European economy is likely to cool off a bit more in the first half of the 2019 calendar year compared to the final months of the previous year, but it is not expected to slide into a recessionary scenario. This against the backdrop that there are no reasons to expect a massive downturn in key economic sectors such as the construction and infrastructure industry as well as the oil and natural gas industry, not to mention that the automotive industry has found its footing yet again after its critical WLTP experience. However, the scenario of moderate cyclical growth in Europe might be undermined by political factors: Besides the Brexit issue, which dominates everything at this point, such a development would include the global trade conflicts and, within the EU, decisions related to energy and climate policies (electricity price zone discussion, CO_2 pricing, and the like).

On the assumption that the coming months will not bring any such dramatic distortions and in keeping with the trajectory indicated in our ad hoc report dated January 16, 2019, we expect the Group's operating result (EBITDA) for the business year 2018/19 to be around EUR 1,550 million and its profit from operations (EBIT) around EUR 750 million. The revenue for the business year ending on March 31, 2019, should surpass that of the business year 2017/18 and thus reach a new high.

voestalpine AG

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF 12/31/2018

**In accordance with International Financial Reporting Standards (IFRS).
This report is a translation of the original report in German, which is solely valid.**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

	03/31/2018	12/31/2018
A. Non-current assets		
Property, plant and equipment	6,282.1	6,450.7
Goodwill	1,545.9	1,547.6
Other intangible assets	396.0	385.8
Investments in entities consolidated according to the equity method	118.5	120.6
Other financial assets and other shares in companies	51.1	49.7
Deferred tax assets	196.1	204.9
	8,589.7	**8,759.3**
B. Current assets		
Inventories	3,998.4	4,188.6
Trade and other receivables	1,773.0	1,841.3
Other financial assets	388.1	191.5
Cash and cash equivalents	705.8	280.4
	6,865.3	**6,501.8**
Total assets	**15,455.0**	**15,261.1**

In millions of euros

EQUITY AND LIABILITIES

	03/31/2018	12/31/2018
A. Equity		
Share capital	320.3	320.3
Capital reserves	609.6	605.6
Hybrid capital	497.9	497.9
Retained earnings and other reserves	4,957.9	4,892.5
Equity attributable to equity holders of the parent	**6,385.7**	**6,316.3**
Non-controlling interests	168.6	161.7
	6,554.3	**6,478.0**
B. Non-current liabilities		
Pensions and other employee obligations	1,171.7	1,230.5
Provisions	76.6	167.7
Deferred tax liabilities	107.6	105.7
Financial liabilities	2,783.6	2,960.0
	4,139.5	**4,463.9**
C. Current liabilities		
Provisions	615.2	612.0
Tax liabilities	183.4	118.6
Financial liabilities	1,315.5	1,309.0
Trade and other payables	2,647.1	2,279.6
	4,761.2	**4,319.2**
Total equity and liabilities	**15,455.0**	**15,261.1**

In millions of euros

CONSOLIDATED STATEMENT OF CASH FLOWS

	04/01–12/31/2017	04/01–12/31/2018
Operating activities		
Profit after tax	555.9	275.7
Non-cash expenses and income	623.9	643.7
Change in inventories	–567.3	–278.1
Change in receivables and liabilities	–127.1	–259.5
Change in provisions	76.1	–69.4
Changes in working capital	**–618.2**	**–607.0**
Cash flow from operating activities	**561.6**	**312.4**
Investing activities		
Additions to other intangible assets, property, plant and equipment	–574.6	–784.5
Income from disposals of assets	23.3	6.4
Cash flow from the acquisition of control of subsidiaries	–4.4	4.5
Additions to/divestments of other financial assets	–235.4	194.5
Cash flow from investing activities	**–791.1**	**–579.1**
Financing activities		
Dividends paid	–223.9	–276.8
Dividends paid non-controlling interests	–12.9	–18.0
Acquisition of non-controlling interests	0.0	–1.1
Increase in long-term financial liabilities	752.1	746.9
Repayment of long-term financial liabilities	–184.9	–1,205.3
Repayment of long-term finance lease liabilities	–1.8	–3.0
Change in current financial liabilities and other financial liabilities	138.8	600.9
Cash flow from financing activities	**467.4**	**–156.4**
Net decrease/increase in cash and cash equivalents	**237.9**	**–423.1**
Cash and cash equivalents, beginning of year	503.3	705.8
Net exchange differences	–13.1	–2.3
Cash and cash equivalents, end of year	**728.1**	**280.4**

In millions of euros

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED INCOME STATEMENT

	04/01–12/31/2017	04/01–12/31/2018	10/01–12/31/2017	10/01–12/31/2018
Revenue	**9,460.4**	**9,948.6**	**3,158.1**	**3,274.6**
Cost of sales	–7,296.8	–7,888.4	–2,473.4	–2,620.0
Gross profit	**2,163.6**	**2,060.2**	**684.7**	**654.6**
Other operating income	284.9	302.3	86.2	94.7
Distribution costs	–853.5	–898.4	–281.2	–314.0
Administrative expenses	–486.5	–508.1	–176.0	–174.2
Other operating expenses	–287.3	–441.0	–66.3	–216.1
Share of profit of entities consolidated according to the equity method	13.4	10.5	3.0	1.0
EBIT	**834.6**	**525.5**	**250.4**	**46.0**
Finance income	35.6	27.6	15.1	3.9
Finance costs	–133.1	–122.5	–42.0	–40.8
Profit before tax	**737.1**	**430.6**	**223.5**	**9.1**
Tax expense	–181.2	–154.9	–56.5	–49.6
Profit after tax	**555.9**	**275.7**	**167.0**	**–40.5**
Attributable to:				
Equity holders of the parent	521.0	247.4	152.2	–50.5
Non-controlling interests	18.0	11.4	9.2	4.4
Share planned for hybrid capital owners	16.9	16.9	5.6	5.6
Basic and diluted earnings per share (euros)	**2.95**	**1.40**	**0.86**	**–0.29**

In millions of euros

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED OTHER COMPREHENSIVE INCOME

	04/01–12/31/2017	04/01–12/31/2018	10/01–12/31/2017	10/01–12/31/2018
Profit after tax	**555.9**	**275.7**	**167.0**	**–40.5**
Items of other comprehensive income that will be reclassified subsequently to profit or loss				
Cash flow hedges	3.3	–9.8	4.5	–3.0
Currency translation	–100.9	6.8	–14.9	9.3
Share of result of entities consolidated according to the equity method	–1.9	–0.5	0.2	0.4
Subtotal of items of other comprehensive income that will be reclassified subsequently to profit or loss	**–99.5**	**–3.5**	**–10.2**	**6.7**
Items of other comprehensive income that will not be reclassified subsequently to profit or loss				
Actuarial gains/losses	20.1	–45.5	–9.2	–11.4
Subtotal of items of other comprehensive income that will not be reclassified subsequently to profit or loss	**20.1**	**–45.5**	**–9.2**	**–11.4**
Other comprehensive income for the period, net of income tax	**–79.4**	**–49.0**	**–19.4**	**–4.7**
Total comprehensive income for the period	**476.5**	**226.7**	**147.6**	**–45.2**
Attributable to:				
Equity holders of the parent	445.8	199.8	132.8	–55.6
Non-controlling interests	13.8	10.0	9.2	4.8
Share planned for hybrid capital owners	16.9	16.9	5.6	5.6
Total comprehensive income for the period	**476.5**	**226.7**	**147.6**	**–45.2**

In millions of euros

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Q1–Q3 2017/18			Q1–Q3 2018/19		
	Group	Non-controlling interests	Total	Group	Non-controlling interests	Total
Equity as of April 1	**5,892.1**	**168.2**	**6,060.3**	**6,385.7**	**168.6**	**6,554.3**
Adjustment – initial application IFRS 15				**–7.4**	**–**	**–7.4**
Equity as of April 1, adjusted				**6,378.3**	**168.6**	**6,546.9**
Total comprehensive income for the period	462.7	13.8	476.5	216.7	10.0	226.7
Dividends to shareholders	–193.9	–12.9	–206.8	–246.8	–18.0	–264.8
Dividends to hybrid capital owners	–30.0	–	–30.0	–30.0	–	–30.0
Tax effect from transactions with hybrid capital owners	5.6	–	5.6	5.6	–	5.6
Acquisition of control of subsidiaries	–	–	–	–	1.3	1.3
Share-based payment	–1.6	–	–1.6	–4.0	–	–4.0
Other changes	–0.4	–0.2	–0.6	–3.5	–0.2	–3.7
Equity as of December 31	**6,134.5**	**168.9**	**6,303.4**	**6,316.3**	**161.7**	**6,478.0**

In millions of euros

SELECTED EXPLANATORY NOTES

With the exception of IFRS 9 and IFRS 15, the accounting policies are principally unchanged from the Consolidated Financial Statements for the business year 2017/18. The initial application of IFRS 9 as of April 1, 2018, does not have any material effects. IFRS 15 was applied in a modified retrospective manner as of April 1, 2018; the previous year's figures were not adjusted therefore. The changes in the Consolidated Statement of Cash Flows concern the figures that were adjusted as of April 1, 2018, pursuant to IFRS 15. For further details, please see the Consolidated Financial Statements 2017/18.

CHANGES IN THE SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

The changes made in the scope of Consolidated Financial Statements during the first three quarters of the business year 2018/19 were as follows:

	Full consolidation	Equity method
As of April 1, 2018	**280**	**9**
Acquisitions	1	
Change in consolidation method		
Additions	4	
Disposals		
Reorganizations	–4	
Divestments or disposals		
As of December 31, 2018	**281**	**9**
Of which foreign companies	222	4

The following entities were deconsolidated in the first three quarters of the business year 2018/19:

Name of entity
Reorganizations
Sacma Acciai Speciali S.p.A.
DIN ACCIAI S.p.A.
voestalpine Bahnsysteme Beteiligungsverwaltung Deutschland GmbH
voestalpine Automotive Components Deutschland GmbH

The following entities are being included in the Interim Consolidated Financial Statements for the first time in the first three quarters of the business year 2018/19:

Name of entity	Interest in %
Full consolidation	
voestalpine HR Services GmbH	100.000%
VOEST-ALPINE TUBULAR CORP.	100.000%
voestalpine Automotive Components Hungaria Kft.	100.000%
voestalpine Metal Engineering Verwaltung GmbH	100.000%
Travertec S.R.L.	60.000%

The additions to the scope of Consolidated Financial Statements of fully consolidated entities include one acquisition, one newly established subsidiary, and the consolidation of three entities not previously included in the scope of the Consolidated Financial Statements.

On November 1, 2018, voestalpine VAE Apcarom SA, which is part of the voestalpine Group's Metal Engineering Division, acquired a 60% stake in the Romanian concrete sleepers manufacturer Travertec S.R.L. from the German company named PCM Rail.One AG. The acquisition was carried out with the aim of expanding the existing local product portfolio of turnouts and thresholds by adding essential components as well as expanding and securing the company's market position in both Romania and adjacent export markets.

This acquisition has the following impact on the Consolidated Financial Statements:

	Recognized values
Non-current assets	1.0
Current assets	2.8
Non-current provisions and liabilities	–0.2
Current provisions and liabilities	–0.3
Net assets	**3.3**
Addition of non-controlling interests	–1.3
Costs of acquisition	**2.0**
Cash and cash equivalents acquired	–0.6
Net cash outflow	**1.4**

In millions of euros

Since their initial consolidation, these acquisitions have contributed revenue of EUR 0.0 million to consolidated revenue. Their share of the Group's profit after tax was EUR 0.0 million for the same period. The consolidated revenue would have been EUR 0.8 million higher and the Group's profit after tax would have been EUR 0.6 million higher if the acquisitions had been consolidated as of April 1, 2018.

As part of the first-time full consolidation of Travertec S.R.L., fair values for trade receivables of EUR 0.4 million (gross carrying amount: EUR 0.4 million) and other receivables of EUR 0.2 million (gross carrying amount: EUR 0.2 million) were taken over. Receivables that are expected to be uncollectible are considered immaterial and negligible.

NOTES ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

During the current business year, the adjustment of the mortality tables in both Austria and Germany as well as the negative performance of the pension fund led to an increase overall in the provisions for pension and severance obligations and consequently to an actuarial loss recognized in the other comprehensive income. This also gave rise to an expensed increase in provisions for long-service bonus obligations and, in sum, a total loss recognized in the income statement.

Imprint
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All quantities expressed as tons in this Letter to Shareholders for the third quarter of the business year 2018/19 are metric tons (1,000 kg).
The use of automated calculation systems may result in rounding differences.

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