

Report of the Management Board

Management Report 2012/13

This Consolidated Management Report refers to the Consolidated Financial Statement, which was prepared in accordance with the International Financial Reporting Standards (IFRS) as mandated by Sec. 245a (1) of the Austrian Commercial Code (UGB). We have made use of the provision under Sec. 267 (4) of the Austrian Commercial Code (UGB), which permits the consolidation of the Management Report and the Group Management Report.

Market environment

Since the financial and economic crisis broke out in 2008, the global economy has not been able to stabilize sustainably, despite massive interventions by individual governments and widespread measures by institutions of the international community.

While a certain broad-based optimism was noticeable in 2011, in the course of 2012 and thus during the entire business year 2012/13 of the voestalpine Group, a pessimistic mood took its place in most of the global economic regions. The economies cooled down worldwide; since then, individual economies have confronted this trend using various methods and their success has been varied as well. An economic recovery by way of consistent austerity measures or by way of debt-financed economic stimulus programs was the fundamental ideological conflict.

Europa

Thus far, the austerity measures taken across almost all of Europe have led to initial successes in consolidating budgets, but they have not resulted in a revitalization of the economy. Southern Europe overall has remained in a recession, and, in the course of the business year 2012/13, the negative mood has spread to individual countries in Central and Western Europe (France, Slovenia). This development has affected almost all of the

customer sectors that are important for voestalpine AG, although the picture is quite a bit more differentiated at the individual customer level. Customers with global operations who have the opportunity to offset the weaknesses in Europe through exports are in a considerably more positive situation than companies that are focused only on European markets.

This applies basically to all industries, it is, however, particularly visible in the European automobile industry, the most important customer segment by far of the voestalpine Group. While the German automobile industry has been able to largely compensate declining sales figures in Europe by way of exports—particularly to the USA and Asia—those manufacturers who are focused on the European home market have been dramatically impacted by declines in new car registrations and must now adjust their production capacity to a saturated and shrinking market, a factor that additionally weakens the development of the economy overall in their respective home markets. The truck, bus, and mechanical engineering industries are fundamentally following the same principle. With its primarily regionally oriented markets, the construction industry has remained the weakest industry segment because, on one hand, public infrastructure investments in almost all the European countries are expected to remain at a low level for years due to depleted state finances and, on the other, the private construction sector is characterized by financing

restrictions and general cautiousness. The situation in the energy sector is similar, as there is a broad-based uncertainty in Europe about the long-term direction of the basic supply structures. Private consumption, however, has remained comparatively solid therefore the consumer goods and white goods sectors have shown relatively robust demand during the business year 2012/13.

USA / North America

As opposed to Europe, the United States are mainly moving in the direction of a policy emphasizing economic stimulus. For the time being, the economic development has been proving this strategy right, as the U.S. growth rates during the past business year in most business segments were substantially more positive than in Europe. In addition to a stabilization in the construction sector, it was especially the U.S. automobile industry that experienced an impressive rebound. Private consumption, a cornerstone of the American economic model, also showed a robust development over long stretches of the previous business year, although toward the end of the year a slowdown of the growth rates became noticeable. Despite all of the problems that have cropped up in connection with Boeing's Dreamliner, the U.S. aviation industry has continued its successful performance.

Short-term economic setbacks in conjunction with reaching the debt ceiling, which is restricted by federal law, have more recently lost some of their intensity, although this challenges the sustainability of U.S. fiscal policies time and again. In any case, the problem of the country's enormous sovereign debt remains unresolved.

Brazil

In the business year 2012/13, the development of the economy in Brazil, the most important South American economic region for the voestalpine Group, could not match the momentum of the past years. The trend regarding capital goods was cautious, while private consumer behavior re-

mained at a solid level. Toward the end of the business year, announcements from the political scene regarding additional economic stimulus programs resulted in a more optimistic mood with regard to the overall economic trend.

Asia

In the course of the business year 2012/13, the Chinese economy lost momentum. Especially in the fall of 2012, economic activity leveled off, due—among other factors—to the transfer of political power. Toward the end of the business year, the economic development overall gained some momentum, although there are growing doubts that this uptrend will be sustainable in the sense of a "real" recovery.

Toward the end of the business year 2012/13, Japan, which has been locked in a phase of stagnation for two decades, reacted to the cautious global developments with a massively expansive monetary policy. This unexpected about-face in its strategy by the Bank of Japan had a direct impact on the rates of exchange; since then, these measures have put additional wind in the sails of the traditionally very export-oriented Japanese industry as far as global competitiveness is concerned. Especially in the energy industry, these developments resulted in a direct improvement in its position vis-à-vis European competitors in global projects.

General trends

Apart from the specific development in the major economic regions that have been described above, the trends in the globally interconnected industry segments that are important for the voestalpine Group can be summarized as follows:

Pipeline projects, a central segment in the energy sector, showed a declining trend in practically all of the global economic regions. While exploration activities remained at a good level—primarily driven by the USA—major pipeline

projects were postponed practically worldwide. In the segment of energy conversion—the construction of power plants—demand, which had been restrained for quite some time, remained at a low level worldwide throughout the business year 2012/13. In contrast, global demand in the railway infrastructure sector showed a widely different picture. With the exception of Europe, almost all other regions worldwide are investing heavily in railway infrastructure. Demand in North America, most countries in Asia, and practically all mining regions worldwide remains strong, and there has been additional momentum from the Middle East and South Africa.

The aviation industry, as well as the agricultural machinery and vehicle sector, defied the faltering global economic trend. Demand in both segments throughout the entire business year 2012/13 was very stable.

Performance of the divisions

The divisions of the voestalpine Group were impacted differently by these developments, depending on in which regions and which industries their focus lay. While the Metal Engineering Division performed quite satisfactorily in practically all of its business segments, the other divisions were—to a greater or lesser degree—impacted by the declining overall economic situation. None of the divisions, however, experienced major problems with regard to either capacity utilization or the earnings situation. Due to its global presence, the Special Steel Division was able to mostly compensate the declines in Europe and in other parts of the world. The internationalization strategy of the Metal Forming Division, which performed extremely well compared to industry competitors, has proven itself based on its figures. The Steel Division faced the greatest challenges because around 85% of its activities are focused on Europe, and the European steel industry was in a difficult situation. However, it once again proved itself to be a benchmark of the industry in the European Union.

The steel industry 2012/13

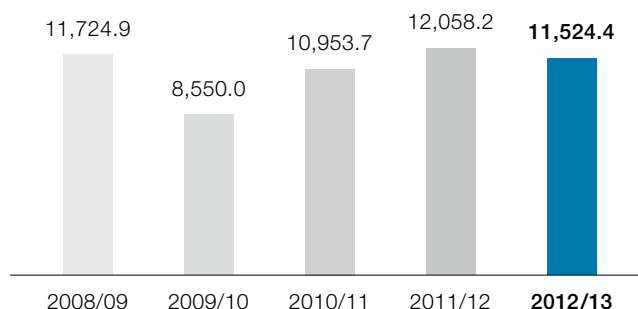
In the 2012 calendar year, worldwide production of crude steel showed very moderate growth of only 1.2% to a total of 1,518 million tons. This increase is largely due to the comparatively more favorable situation in the first half of the year.

Europe did not contribute to global growth, as production on the Continent declined noticeably by –4.7% compared to the previous year. This development clearly reflects the overall economic situation on the Continent, whereby “cyclical” industries, such as the steel industry, are impacted disproportionately by recessive trends. The lower production volume illustrates yet again the structural capacity utilization problems confronting European crude steel producers. Continuing competition for volume, which is being increasingly fought via prices, results unavoidably in ever lower profitability for the entire sector. The European steel industry has been responding to this situation for quite some time with more and more cost-cutting programs across the board. This makes the industry as a whole more productive, but it also creates the concrete risk that companies will lose effectiveness as far as global competitiveness is concerned because they are lacking the funds to make investments and to undertake research and development, which are absolutely indispensable in order to meet the challenges that steel will face in the future (key word: alternative materials).

Viewed globally, the considerably more positive development in North America and Asia—especially in China—was able to more than compensate for the decline in Europe. Concretely, the main contributors to global production growth were North America with an increase of 2.5% and Asia with an overall gain of 2.7% (China +3.1%). However, it is striking that with a plus of 3.1% in 2012, China had a conspicuously lower growth rate than in previous years (+9.3% in 2010 and +8.9% in 2011).

Revenue of the voestalpine Group

In millions of euros



The development of the European steel industry demonstrates yet again how spot-on the strategy of voestalpine AG has been of concentrating only on the most sophisticated product segments in the classic steel sector and driving the Group's development in the direction of a technology and capital goods group that is focused on future-oriented product solutions.

Business performance of the voestalpine Group

Revenue and operating result

With a decline of 4.4% down to EUR 11,524.4 million (compared to EUR 12,058.2 million in the previous year), in a year-to-year comparison, the revenue of the voestalpine Group reflects the weakening of the global economic situation on one hand and, on the other, the lower pre-material costs.

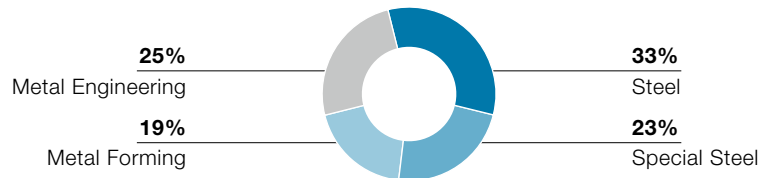
The decrease in revenue impacted all the divisions, although at –1.4%, the drop in the Metal Engineering Division was kept within narrow limits.

As far as earnings are concerned, the Group experienced growth in all categories—in some cases very significant growth—compared to the previous year. In this context, however, when comparing the figures of the year under review to those of the business year 2011/12, it should be noted that the latter business year was impacted by negative non-recurring effects in the form of provisions amounting to EUR 205.0 million set aside for risks resulting from the antitrust proceedings in Germany and closure of the standard rail production facility in Duisburg.

The operating result (EBITDA) in 2012/13 was EUR 1,441.8 million, an increase of 10.7% compared to the previous year's figure of EUR 1,301.9 million.

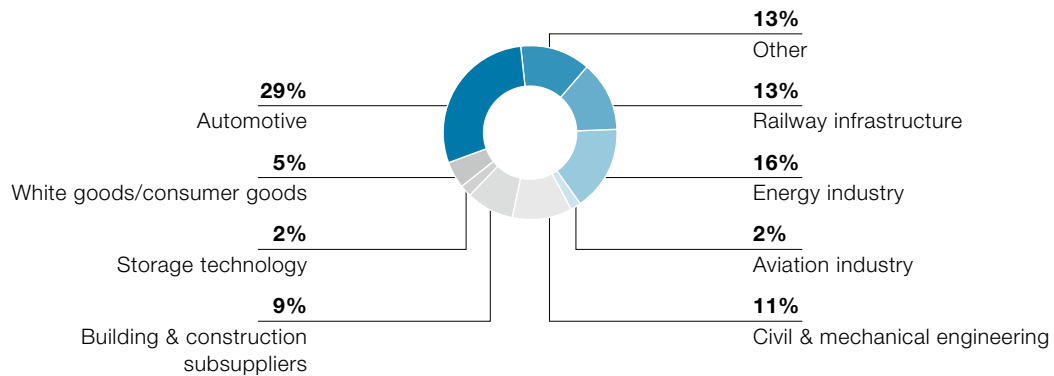
Revenue by divisions

As percentage of total divisional revenue
Business year 2012/13



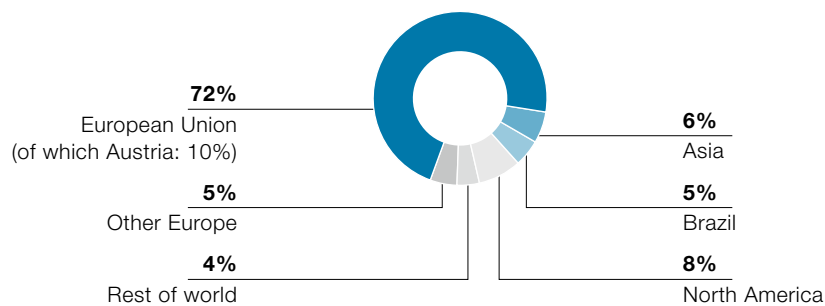
Revenue by industries

As percentage of Group revenue
Business year 2012/13



Revenue by regions

As percentage of Group revenue
Business year 2012/13



Profit from operations (EBIT) experienced a boost of 21.2%, going from EUR 704.2 million in the business year 2011/12 to EUR 853.6 million in the year under review.

The non-recurring effect of the previously mentioned provisions amounting EUR 205.0 million in the business year 2011/12 impacted solely the Metal Engineering Division; therefore, this division's earnings show significant growth in a year-to-year comparison. But even adjusted for this effect, the division was able to again surpass the already very high previous year's figures both with regard to EBITDA and EBIT.

In the other divisions, development of earnings in a year-to-year comparison were varied. While the Steel Division experienced only marginal losses (EBITDA -1.6%, EBIT -3.6%) and the Metal Forming Division's figures fell moderately (EBITDA -6.7%, EBIT -9.5%), the Special Steel Division's results fell considerably short of the outstanding results of the business year 2011/12 (EBITDA -14.2%, EBIT -18.1%).

Viewed overall, considering the economic environment, the performance of the voestalpine Group has been gratifying, including in the comparison to other companies in the industry. This is the result of the Group's broad-based geographical and sectoral set-up, with its combination of steel production and downstream processing of steel—and increasingly other materials as well—and its focus on technologically sophisticated market segments. The performance of earnings—especially in a challenging economic environment—confirms that the strategy of extending the value chain based on premium products, which has been pursued consistently for the past twelve years, was the right path to take.

Profit before tax and profit for the period

In a year-to-year comparison, profit before tax rose from EUR 504.4 million in the previous year to EUR 654.7 million in the business year 2012/13,

a gain of 29.8%. As of March 31, 2013, profit for the period was EUR 521.9 million, an increase of 26.3% compared to the previous year's figure of EUR 413.3 million. Earnings per share rose accordingly by 31.8% from EUR 1.98 per share in the previous year to EUR 2.61 per share for the business year 2012/13.

Proposed dividend

Subject to the approval of the Annual General Shareholders' Meeting of voestalpine AG on July 3, 2013, a dividend of EUR 0.90 per share will be paid to shareholders, an increase of 12.5% compared to the previous year's dividend of EUR 0.80 per share. Based on the earnings per share (EPS) of EUR 2.61 EUR, this recommendation corresponds to a distribution ratio of around 35%.

Based on the average share price in the business year 2012/13 of EUR 23.99, the dividend yield is 3.8%.

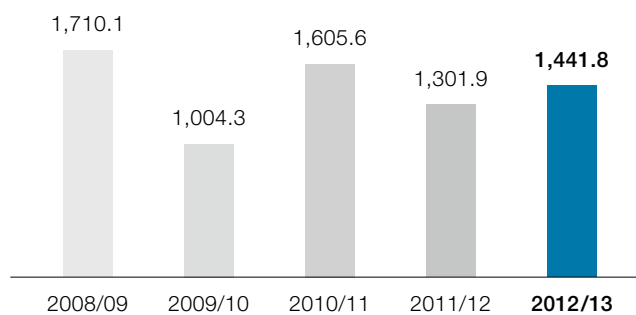
Gearing ratio falls from 53.5% to 44.5% as of March 31, 2013

The performance in the past business year brought another substantial consolidation for the structure of the statement of financial position of the voestalpine Group. Despite the difficult economic environment and an increase in investments by almost 50%, the gearing ratio (net financial debt in percent of equity) dropped as of March 31, 2013 in a year-to-year comparison by 9 percentage points to 44.5%.

The significant further improvement of the equity to debt ratio in the past business year, which was very challenging, was the result of both an increase in equity (by 4.9% from EUR 4,836.3 million as of March 31, 2012 to EUR 5,075.3 million as of March 31, 2013) and a decline in net financial debt (by 12.6% from EUR 2,585.7 million as of March 31, 2012 to EUR 2,259.2 million as of March 31, 2013). Above all, the reduction of debt by another EUR 326.5 million is a remarkable development, especially since the past business

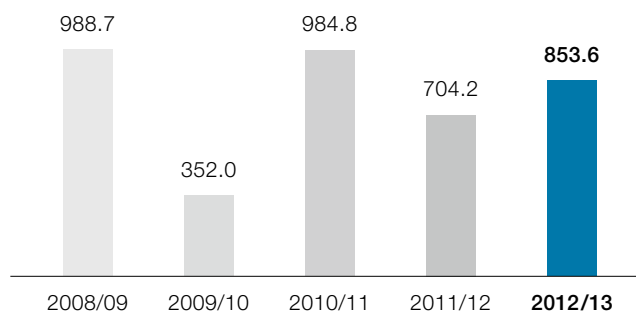
EBITDA – Profit from operations before depreciation

In millions of euros



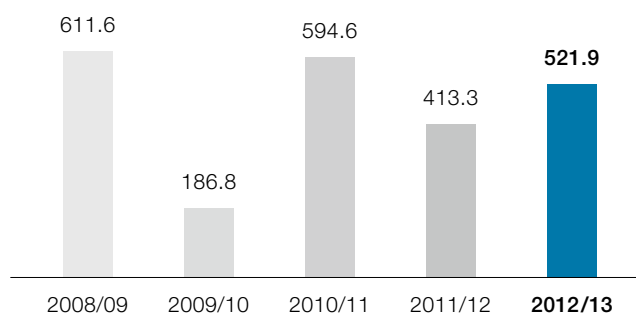
EBIT – Profit from operations

In millions of euros



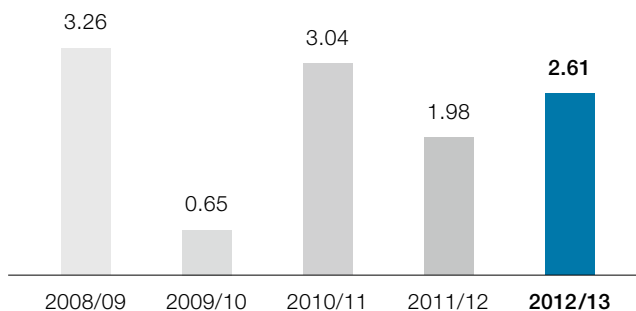
Profit for the period

In millions of euros



EPS – Earnings per share

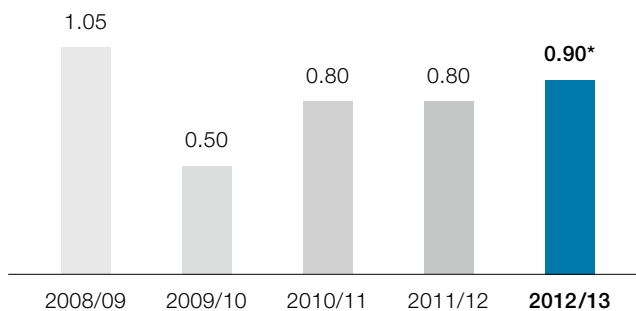
In euros



Dividend per share

In euros

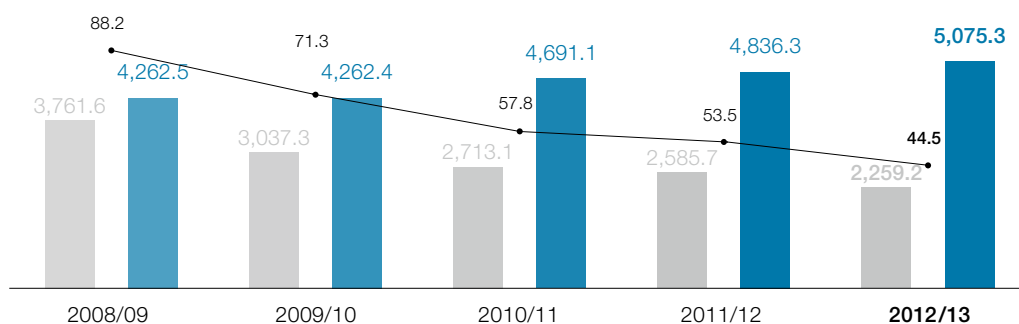
* As proposed to the Annual General Shareholders' Meeting.



Net financial debt – Equity – Gearing ratio

In millions of euros

■ Net financial debt
 ■ Equity
 — Gearing (in %)



year saw investments in the amount of EUR 851.5 million due to the implementation of the first step of our Group Strategy 2020. The Group's strong self-financing capability that was again demonstrated in 2012/13 forms a solid foundation that is vital for the realization of our ambitions for future growth.

Cash flow

At EUR 1,321.9 million, cash flow from operating activities went up compared to last year's figure of EUR 856.5 million, a boost of 54.3%. This increase is due not only to the improved profit for the period but also to the performance of working capital, which enabled a release of cash and cash equivalents in the amount of EUR 225.0 million in the business year 2012/13. This positive development is due not only to the decline in revenue in a year-to-year comparison but to the structural reduction of working capital that was lowered in relation to revenue as of March 31, 2013 to 15.9% (down from 16.9% as of March 31, 2012).

Investments were considerably higher than in the previous year, which affected cash flow from investing activities in the business year 2012/13 (EUR –829.6 million)—a significant increase of 73.3% compared to the previous year's figure of EUR –478.6 million. This increase in the use of appropriations was more than compensated by the cash flow from operating activities that rose even more substantially.

At EUR –74.7 million, the cash flow from financing activities in the business year 2012/13 was only slightly negative, a significant change compared to the previous year's figure of EUR –933.7 million. This change in cash flow from financing activities is due not only to scheduled repayments of loans and debt securities but to the very successful international placement of another benchmark bond in October 2012.

Quarterly development of the voestalpine Group

					BY		Change in %
	1 st quarter 2012/13	2 nd quarter 2012/13	3 rd quarter 2012/13	4 th quarter 2012/13	2012/13	2011/12	
Revenue	3,050.6	2,882.2	2,719.7	2,871.8	11,524.4	12,058.2	–4.4
EBITDA	375.0	354.8	321.9	390.1	1,441.8	1,301.9	10.7
EBITDA margin	12.3%	12.3%	11.8%	13.6%	12.5%	10.8%	
EBIT	230.7	210.0	174.4	238.6	853.6	704.2	21.2
EBIT margin	7.6%	7.3%	6.4%	8.3%	7.4%	5.8%	
Profit before tax (EBT)	185.1	162.7	125.9	181.0	654.7	504.4	29.8
Profit for the period	144.9	124.6	100.0	152.4	521.9	413.3	26.3
Employees (full-time equivalent)	46,075	46,115	44,696	46,351	46,351	46,473	–0.3

Important events in the course of the year

Adoption of the long-term Group Strategy

Ever since its IPO in 1995, but especially since the strategic realignment in the business year 2001/02, the voestalpine Group has consistently followed the path of value-added growth. With this strategy that is oriented not toward revenue or volume but exclusively toward “high tech/high quality,” the Group has established a leading position in Europe in its core segments both with respect to profitability and quality and technology. Furthermore, it is world market leader in some significant business segments.

Against the background of this global macroeconomic environment that is constantly changing with ever increasing speed, it is our intention to not only secure this claim in the long term but to expand it.

Therefore, after intensive and detailed discussions with the Management Board over the course of twelve months, in December 2012, the Supervisory Board of voestalpine AG approved the central elements of our Group Strategy 2020, which comprises the following propositions and objectives:

- The voestalpine Group is consistently forging ahead with its long-term path of value-added growth.
- Growth will be focused on the mobility and energy industries and geographically, primarily on the growth markets outside of Europe. In Europe, the consolidation of market, quality, and technology leadership in the core business segments will be the main target.
- The continued expansion of processing operations, which are already dominating current activities, will be pursued systematically; thus,

the transformation from a steel company to a technology and capital goods group will be driven forward consistently.

- In the technologically most sophisticated market and product segments of mobility and energy, the Group is aiming for a leading position worldwide.
- Concurrently, the Group is striving to sustainably consolidate its earnings leadership.

Provided that the global economic environment will stabilize in the medium term, the target revenue for the business year 2020/21 is EUR 20 billion, with EBITDA and EBIT margins of 14% and 9% respectively and a return on capital employed (ROCE) of 15% as long-term, average figures.

In order to realize these quantitative objectives, the long-term direction must be primarily focused on the consistent expansion of leadership role as a provider of top-quality products in the Group's core business segments.

- Since our IPO in 1995, the revenue generated outside of Europe has been continually expanded from a mere 6% to currently 23%. Over the long term, the objective is to achieve a balanced revenue ratio between Europe and the rest of the world. For the business year 2020/21, the goal is that 40% of revenue will be generated in non-European markets. Europe continues to be the point of origin for innovations, but—as opposed to Asia and the Americas—it will no longer be a primary driver of growth.
- Since 1995, the share of the Group's key growth sectors mobility (automotive, railway, aviation) and energy has risen from 32% of the Group's revenue to currently 60%. By 2020/21, these two sectors should be generating around 70% of the Group's revenue.

- The development of the “classic,” cyclical steel operations versus the comparatively more stable processing activities has been similarly significant in the past years. Since 2001/02, the steel segment’s share of the Group’s revenue has been reduced from 55% to 29%; by 2020/21, it should decline even further to around 25%. While completely phasing out steel production has been part of our strategy discussion, this possibility was rejected, as eliminating voestalpine’s own high-quality steelmaking capabilities would result in a massive weakening of the downstream segments that build on the Group’s own materials expertise.

Even though ongoing changes are impacting the global environment—and will continue to do so—as the Group Strategy 2020 is implemented, the voestalpine Group will remain an innovative and reliable partner for its customers, its employees, and its shareholders.

Closure of TSTG Schienen Technik GmbH & Co KG

After the decision by the Management Board in March 2012 to close the rail production of TSTG Schienen Technik GmbH & Co KG in Duisburg, the subsequent negotiations with the Works Council regarding a reconciliation of interests and a social compensation plan for the remaining roughly 350 employees were successfully concluded on May 16, 2013. The final closure will take place toward the end of the 2013 calendar year after all still remaining orders have been completed (regarding provisions formed for the closure, please see the chapter “Antitrust proceedings relative to railway superstructure material.”).

Streamlining of the Group’s structure

In the early part of the business year 2012/13, the previously independent Profillform and Automotive Divisions were merged to jointly form the Metal Forming Division. Now, for the first time, all of the Group’s competencies have been incor-

porated into four large divisions that are approximately the same size.

After the first year, the new division can boast quite positive results. Sustained by orders from renowned companies, the extensive steps toward globalization taken by the Tubes & Sections and Automotive Body Parts business units are fully on track, both time-wise and as far as costs are concerned. Due to its stronger global presence inherited from the two former divisions, the new division can expand its market position more efficiently and in a more goal-oriented manner. It is currently investing a total of around EUR 120 million in the establishment and/or expansion of production locations in Germany, Romania, the USA, China, South Africa, and Brazil.

As far as the key figures of the Metal Forming Division are concerned, please refer to the chapter with the divisional reports.

Antitrust proceedings relative to railway superstructure material

In the antitrust proceedings relative to railway superstructure material, in early July, the German Federal Cartel Office (Bundeskartellamt) imposed fines totaling EUR 124.5 million on four manufacturers and suppliers of rails for having entered into anti-competitive agreements to the detriment of Deutsche Bahn AG. EUR 8.5 million of these fines were levied against companies belonging to the voestalpine Group. This means that the German Federal Cartel Office has thus confirmed voestalpine’s status of cooperating witness for the major part of the proceedings and the comparatively small fine concerns marginal segments only. Therefore, the antitrust proceedings involving for the most part Deutsche Bahn have now been resolved. At a later date, the German Federal Cartel Office will examine the deliveries of railway superstructure material to regional and local customers. From today’s perspective, it is still too early to estimate when we can count on a final decision regarding these additional issues. After very intensive negotiations with Deutsche Bahn, in late April 2013, we succeeded in reaching an agreement with regard to payment of compensation for damages for direct deliveries made

within the scope of the rail cartel; it was agreed to keep the details regarding the actual amount confidential. This means that the first—and large—portion of the antitrust proceedings has now been concluded for voestalpine AG. Furthermore, this should enable us to restore the foundation for a continuing long-term, stable collaboration with Deutsche Bahn.

The provisions created for the antitrust proceedings and associated actions and costs as well as for the closure of TSTG Schienentechnik GmbH & Co KG in the annual financial statements 2011/12 in the amount of EUR 205.0 million were adjusted downward to EUR 204.4 million in accordance with the current estimate and are considered to be appropriate.

Important events after the reporting date

We refer to the information in the notes to the consolidated financial statements under Item 29.

Investments

While in the interest of a progressive reduction of debt, the investments of the past years were characterized by a restriction of expenses to approximately the level of depreciation, the investment activities at the voestalpine Group again became significantly more dynamic after the gearing ratio fell below 50% in the business year under review.

At EUR 851.5 million (previous year: EUR 574.6 million), investments in 2012/13—for the first time since the business year 2008/09—were markedly above the level of depreciation (depreciation in the business year 2012/13: EUR 588.2 million). These investments dealt with required repair and

maintenance measures, such as the relining of a blast furnace in the Metal Engineering Division; however, they primarily involved plans that consistently promoted the further enhancement of the Group's leadership in technology and quality, and at the same time advanced the Group's regional diversification outside of Europe. The investment activities of the individual divisions in the business year 2012/13 can be illustrated in detail as follows:

At EUR 277.3 million, the Steel Division accounted for almost one-third of the Group's investment expenditures in the business year 2012/13 (previous year: EUR 197.8 million or +40.2%). At the

center of these activities were the final measures of "L6," the major investment program, which has been ongoing since 2009, supplemented by necessary replacement and maintenance investments. After the operational launch of the DeNO_x system on the sintering belt toward the end of 2012, the start-up of the continuous annealing line 2 (investment volume of EUR 150 million) will mark the completion of the "L6" program. At that point, the Steel Division will possess the most modern installation currently available in the world for the production of electric steel strip.

The next investment program, "Linz 2020," will serve to secure the Group's leadership in technology and quality over the long term and also facilitate cost and product mix optimization. Critical components of the project entail the relining of all three blast furnaces, including the installation of pulverized coal injection ("PCI") systems, the expansion of secondary metallurgical capacities to 80% of the steel mill's capacity, and the updating of the slab processing systems. Under this program, an expansion of steel production capacity at the Linz site to more than 6 million tons is not being planned. In heavy plate production, the new construction of the rolling stands is currently underway as scheduled. In connection with a new rolling technology, it will be possible to develop new product qualities in this segment.

In the business year 2012/13, the Special Steel Division invested a total of EUR 257.2 million, thereby doubling the previous year's figure of EUR 128.7 million. Among the most significant investments is the expansion of capacities at the Kapfenberg site for the production of powder-metallurgical steel. Execution of the steel mill redesign at the Wetzlar (Germany) site is running right on schedule. In this endeavor, the division intensified its focus on productivity, quality, environmental protection, and job security as part of an expansion program slated to run for four years. In the division's international service and sales network, the Group is consistently investing in the expansion of pre-processing and processing activities. In this regard, the focus was on Canada, China, and Germany in the year under review. Thus, the Special Steel Division not only

aimed to extend the value creation chain, it also strived for a significant strengthening of its own position in customer service.

The investments of the Metal Engineering Division in the business year 2012/13 equaled EUR 164.9 million, which exceeds the previous year's figure (EUR 129.3 million) by approximately 27.5%. The most comprehensive project, in terms of cost, involved the relining of one of the two blast furnaces at the Donawitz site. In the wire segment, construction continued and was nearly completed on a production facility for the manufacture of ultra-high-tensile fine wire at CPA Filament GmbH, a unit that was taken over approximately one year ago through the acquisition of a majority stake. The company is currently beginning the run-up phase (see also the "Acquisitions" chapter).

In addition to an array of smaller projects that are being implemented on schedule, a representative example of one such project is the installation of comprehensive laboratory and test devices for the quality control testing of seamless tubes at the Kindberg (Austria) site.

In the business year 2012/13, the Metal Forming Division's investment expenditure soared by 30% compared to the previous year, from EUR 109.8 million to EUR 142.6 million. The groundbreaking ceremony for the construction of a plant to produce automotive parts in Cartersville, Georgia (USA) took place in mid-November 2012 with production slated to begin in the first half of business year 2013/14. As part of the accelerated internationalization of the Automotive Body Parts business segment, new production sites are also being constructed in South Africa and China. Also in China, the contract to install a special section production facility (customer focus: construction and agricultural machinery) was awarded in the third quarter of the business year 2012/13. In the Precision Strip business segment, the investments in a new rolling and strip processing center at the Kematen (Austria) site were largely completed.

Acquisitions

In the business year 2012/13, the Special Steel Division effected three acquisitions. In the third quarter, the division acquired the Canadian company Sturdell Industries Inc. with one location each in Canada and the USA in the proximity of existing Special Steel Division sales offices, in order to step up its service activities in the North-east of the U.S., which deal especially with the mechanical processing (sawing, milling, grinding) of tool steels. This acquisition enables the division to leverage synergies and optimize cost structure in the local markets.

In the fourth quarter of the business year, nine companies with annual revenue of around EUR 50 million and 330 employees were acquired from the Eifeler Group, headquartered in Düsseldorf. Six of the companies are in Germany, two in Switzerland, and one in the USA. They are specialized in high-quality and innovative coatings for tools. This will enable the division to expand its service offerings in the highest quality segment and to meet the needs of toolmakers and tool users even better than before.

In the first quarter of 2012/13, the Metal Engineering Division made a strategically important acquisition in the wire segment. voestalpine

Austria Draht GmbH expanded its activities in the sophisticated wire processing segment by acquiring 54.1% of the shares of CPA Filament GmbH from the Austrian Steinklauber Group. Within the scope of this joint venture, a new facility for the production of ultra-high-tensile fine wire (diameter of up to 0.08 mm) was erected in Fürstenfeld (Styria); it is currently in the process of launching operations.

Further expansion is planned in stages for the next several years. By the time all expansion plans have been completed, the new company is expected to generate a revenue of about EUR 70 to 80 million.

After the closing date, voestalpine took over the assets of Rieckermann Steeltech Ltd. (Shanghai) and P.M. Technology Ltd. (Shenzhen) in order to enhance the position of the Special Steel Division in China, a growth market. Around 100 employees are working at the two locations on the pre-processing and heat treatment of sophisticated special steels, which are used primarily in oil and natural gas production, energy and power plant technology, and the aviation industry and which have a high growth potential.

Employees

Development of the headcount

As of March 31, 2013, the total headcount in the voestalpine Group was at 46,351 employees (based on FTE/full-time equivalent), thus remaining practically unchanged compared to the previous year (46,473). With a slight increase of permanent staff (+1.0% from 41,649 to 42,078 employees) and apprentices (+6.9% from 1,263 to 1,350 young people) the marginal decline by 0.3% results from a year-to-year lower employment of temporary employees (-11.4% from 4,305 to 3,816 person years).

The continuing internationalization of the Group is reflected in the greater—albeit only slightly—percentage of employees working outside of Austria. As of the end of the business year, 22,567 persons or 53.6% (previous year: 53.5%) of employees were working at international locations; 46.4% or 19,511 employees (previous year: 46.5%) were working at Austrian Group companies.

The percentage of apprentices who are being trained at locations outside of Austria remained almost unchanged at 36.3% (previous year: 36.4%) or 490 persons.

Employee shareholding scheme

The employee shareholding scheme, which has existed since 2001 and has since been expanded, is currently available abroad for Group employees in Great Britain, Germany, the Netherlands, Poland, and Belgium. Particularly in Poland and Belgium, additional companies were included in the model in the business year 2012/13, and thus the employee shareholding scheme was significantly expanded.

As of March 31, 2013, a total of around 22,600 employees are voestalpine AG shareholders

through the voestalpine Mitarbeiterbeteiligung Privatstiftung and hold a total of 23 million shares. Due to the general bundling of voting rights, these employees, with a holding of 13.3% of the share capital (previous year: 11.9%), are one of the two largest core shareholders of voestalpine AG. About 1.8 million private shares owned by current and former employees (this corresponds to about 1.1% of the voting shares) are also managed by the voestalpine Mitarbeiterbeteiligung Privatstiftung. Thus, currently 14.4% of voestalpine AG's share capital (previous year: just under 13%) are owned by employees.

The Stahlstiftung (Steel Foundation) in Austria

The Stahlstiftung, which was established in 1987, provides former employees of voestalpine from almost all of the Austrian Group companies with the opportunity to take up to four years to complete training and continuing education courses to upgrade their skills or to start a new career path. This institution significantly mitigates the social consequences of lay-offs, and the participants receive the best possible assistance in their search for a new job. In the business year 2012/13, more than 85% of the participants who were looking for work were able to find a new job with the help of the Stahlstiftung; this high placement rate, which is excellent by international standards as well, remained unchanged compared to the previous year.

As of the end of the business year, a total of 437 persons were being assisted by the Stahlstiftung, of whom 37.3% were participants from companies not belonging to the voestalpine Group. The number of participants declined compared to the business year 2011/12 (506 persons) by 13.6%.

Focus of HR activities

CAREER'S BEST RECRUITERS award

According to CAREER'S BEST RECRUITERS 2012/13 study for Austria, voestalpine AG was in first place for the iron/metal industry for the third consecutive time and received the "Golden Seal" award. More than 500 Austrian companies in 23 industries were evaluated with regard to their online and offline corporate presence and the feedback obtained from applicants.

Personnel marketing

In the past business year, the voestalpine Group was again represented at numerous target group events both in Austria and abroad, providing primarily interested students with the opportunity to get to know the "voestalpine working environment."

In addition to classic activities, such as trade fairs and sponsorships, the HR online presence was again expanded: since March 2012, the Group has a career page on Facebook, which provides a look into the working environment at various Group locations. Furthermore, a website for apprentices was also set up that introduces the apprenticeship occupations that the Group offers as well as the training locations.

Apprentices

Complementing local activities by the individual Group companies, in the business year 2012/13, "steel sounds," a campaign aimed at apprentices, was implemented jointly with Austrian and German sites that offer training for apprentices. In this competition, the young people were able to creatively explore the world of steel and submit videos, in which they created sounds using everyday steel products. The best sounds were selected online and integrated into a song that had been

composed for voestalpine. As the campaign targeted young people, it was conducted online and on Facebook. This campaign attracted not only the attention of the youthful target groups, but it was nominated from among 500 submissions for the German Award for Online Communication in the "Recruiting Campaign" category.

In early December, the first Group Apprentice Day took place for apprentices from Austria and Germany in the last year of their apprenticeship. Besides a panel discussion with the Management Board of voestalpine AG, there were contests that involved a specially designed voestalpine Monopoly game, guided tours of the plant and the voestalpine Stahlwelt in Linz, and an award ceremony for the winners of the "steel sounds" competition.

Development of executives

In the business year 2012/13, 146 participants from 16 countries took part in the four-phase "value:program," a development program for executives. Around 40% of the participants were from Group companies in other countries; the percentage of women was 15%.

High mobility pool

After the very successful, Europe-wide recruitment of participants for the "Generation 2011," the internationalization of the high mobility pool is being driven forward. Participants from Brazil, China, Canada, and Mexico qualified for the "Generation 2013." The high mobility pool offers young, well-educated, and geographically flexible people, who have a few years of professional experience, the possibility to get to know the voestalpine Group in a very structured form by way of concrete projects and to embrace this as an attractive career opportunity.

Raw materials

The prices of the raw materials iron ore and coking coal, which are vital for steel production, remained highly volatile throughout the business year 2012/13. In recent years, a very transparent spot market has developed for these two raw materials, which makes all the critical information about pricing available online. Therefore, the pricing model today is not based on annual, half-yearly, or quarterly prices as it was in the past—even with mining operators with whom one has had a longstanding relationship—but is instead on an up-to-the-minute basis.

Starting at around USD 150 for a ton of iron ore on the spot market (CFR China) at the beginning of the business year 2012/13, from the spring of 2012 onward, there was an initial downward trend until, subsequently, a certain stabilization occurred. During the summer months, the iron ore price collapsed and by early September 2012, it reached its lowest level to date at less than USD 90 per ton. This development is based on a weaker demand for ore by Chinese steel producers as their domestic economic outlook deteriorated. By pushing through infrastructure projects and taking additional measures to bolster the economy, subsequently, the Chinese economy stabilized. Anticipating increasing crude steel production figures, toward the end of 2012, prices on the iron ore spot market began to rise to more than USD 150 per ton. As doubts mounted that construction activity would be sustainable due to the extremely cold winter in China, toward the end of the business year 2012/13, the iron ore prices again began to decline and since then, they have been fluctuating in a range between USD 130 and 140 per ton.

The price decline for coking coal that began in early 2011 continued in the business year 2012/13.

Starting at a per ton price of around USD 300 in January 2011, the price did not begin to stabilize until the fall of 2012 at about USD 150 per ton. An additional reason for this is the supplementary supply of coal from Mongolia edging into the market that is primarily destined for the Chinese steel industry, which then, in turn, needs to buy less coal internationally. Furthermore, the large mine operators in Australia have been mostly spared production stoppages due to inclement weather, which they had had to deal with in previous years.

The trend for coke, a product refined from coking coal, has been similar to that of coal. The price on the spot market, which was still at USD 500 per ton in early 2011, had fallen to under USD 300 per ton in the course of the business year 2012/13. The fact that in early 2013 China did away with the 40% export tax on coke most recently put even more pressure on the price of coke.

Price movements for scrap—also a basic material for the production of steel—were much more moderate. As was the case in recent years, in the business year 2012/13, the scrap price has been moving within a certain range around EUR 300 per ton. The price trend for the most important alloy metals was likewise largely unremarkable.

The long-term raw materials strategy of voestalpine AG continues to aim for a diversified and broad basis of supply sources in order to avoid becoming dependent on individual suppliers. From today's perspective, problems regarding the availability of raw materials are not being anticipated.

Research and development

In business year 2012/13, the voestalpine Group's expenditures on research and development reached a new record level of EUR 125.6 million, surpassing the previous year (EUR 116.7 million) by 7.6%. The research ratio (proportion of R&D expenditures in relation to revenue) rose from 1.0% to 1.1% compared to the previous year.

For the current business year, the budget for research and development funds will further increase to EUR 137 million, thereby reaching a new R&D budget record.

This reflects the fundamental significance of this area to the strategic direction of the voestalpine Group, which envisions the long-term expansion of the Group's leadership in technology and quality, specifically in the now dominating and confirmed long-range growth industries of mobility and energy. Beside these product-related innovations, another important focus of R&D activities is the continuing process optimization with respect to energy and raw materials efficiency as well as further emissions reduction. In this respect, voestalpine not only uses its intra-Group know-how, but also calls upon the collective expertise of a network of approximately 150 renowned scientific institutions throughout the world, and upon the Company's intensive, long-term development partnerships with selected customers.

In addition to the research projects described in thorough detail in previous letters to shareholders of the business year 2012/13—including key areas such as electrical steel strip, the development of special sections, maintenance-free lattice towers for wind energy, and the Group's leading role in the ALIVE project for lightweight automobile construction, a part of the EU Green Car Initiative—the following other innovation activities of

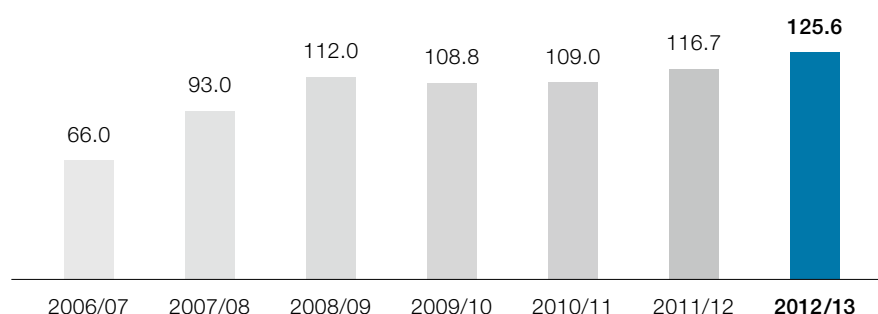
the Steel Division should be highlighted as exemplary:

- Accelerated development of multiphase steels for the next generations of automotive car bodies: using the AHSS HD steels (Advanced High-Strength Steels High Ductility), automotive engineers achieve up to 60% better forming properties with the highest strength. The goal is to deploy these types of higher-strength steels in safety-related areas (such as doors and hatches) and in exterior skin components (such as side walls). Indeed, at one renowned automobile manufacturer, the approval process for the innovative material is already underway.
- Advanced development of the zinc-magnesium coating for automotive steel and first production deliveries of an auto body panel to a premium brand automaker.
- The addition and expansion of further expertise with pbs-ultraform, the hot-dipped galvanized hot-stamping steel developed by voestalpine Research & Development as a world innovation. This steel enables automakers to manufacture safety-related components in the auto body that achieve a substantial weight reduction without compromising strength. pbs-ultraform components represent a pioneering solution in the automotive industry for safety-specific yet corrosion-prone auto parts. To a great extent they are already in use by premium brand carmakers: for longitudinal chassis beams, A and B columns, side walls and front walls, rocker panels, and for doors and hatches as well. This technology helps substantially reduce fuel consumption and at the same time, significantly boosts passenger safety. Through corresponding local investments, they will also become available soon to customers in the USA, South Africa, and China.

Research expenses for the voestalpine Group

In millions of euros

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



The focus of rail technology lies on the development and optimization of new materials for local transit, mixed traffic, and heavy haul sectors, and on research into the damage phenomena that affects wheel-to-rail contact. At the same time, track tests with the new fatigue-resistant bainitic rail steel have thus far run very well. A new, wear-resistant grooved rail steel grade, optimized in terms of welding technology, was specially developed for the tram segment and will come into market in the near future.

In turnout technology, the division engineered a new type of heavy haul turnout (that also takes into account innovative special rail sections), which was successfully installed in Australia. This new generation of turnouts can even tolerate a load per axle in excess of 40 tons (European standard: 22.5 tons). This new kind of turnout design goes hand-in-hand with the development of an

innovative integrated turnout point setting system solution, on a hytronics basis, that is specially geared to the requirements of the heavy haul sector and that further enhances operational efficiency.

For welding consumables—primarily in accordance with a customer requirement from the petrochemicals industry—the division developed a special bismuth-free, high-grade alloy manufacturing process for cored wire. The process stands out for markedly improved product features in the processing stage (such as heat treatment).

In the high-quality stainless steel segment, the accelerated materials development primarily made it possible to raise the degree of efficiency in energy generation—for example, through the production and use of larger and yet lighter-weight low-pressure steam turbine blades. In

In addition, the Special Steel Division recently engineered new materials that take two essential and yet frequently conflicting material properties—namely good workability under tempered conditions and optimized abrasive wear resistance—and combines them in the best possible manner. As a result, tool manufacturers can use these materials to produce geometrically sophisticated tool holders without any diminution in the material properties—and in a considerably more feasible way than before.

Last but not least, another development in this segment being jointly pursued with industrial partners warrants special note: a corrosion-proof stainless steel for use in offshore, deep-hole drilling under extreme corrosion, pressure, and temperature conditions.

To a great extent, this kind of research success involves an intensive exchange of knowledge both within the Group and with external partners. Therefore, the sixth annual "Synergy Platform" was held in October 2012; what had initially started as a "researcher conference" has since evolved into a professional conference for a broad spectrum of Group employees. Under the slogan "From Idea to Innovation," the event featured lectures by external experts and a profile of developments and examples of best practices from the innovation management of the voestalpine Group.

The voestalpine Group makes a substantial contribution to K1-MET, the Austrian competence center for metallurgical and environmental technology processes, and supports the technology network, founded in 2008, with a project volume

of EUR 7.5 million. Within this framework, Scientific Exchange Day, a symposium at the Graz University of Technology, took place in March 2012. The latest research data—such as those on energy and raw materials efficiency in metallurgy and industrial recycling processes—took center stage. The insights gained at the competence center are continuously applied to practical innovations, such as the optimizing of MEROS technology for the offgas treatment of the sintering plants at the Linz site, or the pilot system for the recycling of zinc-rich dust particles installed at the Leoben University of Mining and Metallurgy.

Environment

Environmental expenditures

In business year 2012/13, the environmental expenditures of the voestalpine Group¹ equaled a total of EUR 240 million, thus remaining at the previous year's high level (EUR 244 million). Specifically, approximately EUR 27 million were attributed to environmental investments (2011/12: EUR 32 million) and EUR 213 million (2011/12: EUR 212 million) went to ongoing operating expenses for environmental systems.

Focus of environmental measures

The focus of the activities, which partly have already been presented in detail in previous letters to shareholders, was also placed on the areas of energy and raw materials efficiency, air and water pollution control as well as waste prevention and recycling.

For example, at the Linz site, an additional melting pot gas holder was put into operation so that the plant can optimize its use of the melting pot gas accumulated during the LD-process in the steel mill and minimize any losses through flaring. In addition, in the area of air purification, the first DeNO_x system ever installed in Europe for the denitrification of sinter exhaust was put into operation at the end of 2012. This trend-setting system will enable a further reduction of NO_x emissions by approximately 400 tons per year.

Furthermore, the environmental remediation of the coking plant at the Linz site, which began in October 2012, represents a long-term remediation

focal point. Restoration of the subsoil, which became heavily contaminated due to the destruction in the Second World War, will take place in gradual stages and, due to the dimension of the affected area, will last for a period of at least ten years.

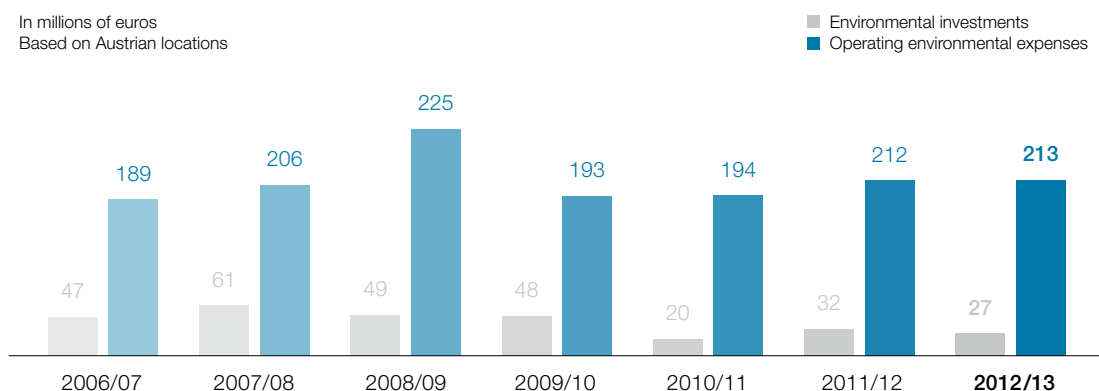
To increase energy efficiency in the Special Steel Division, the Group collected data on current conditions at eight production sites; in addition, it defined energy KPIs (Key Performance Indicators). The implementation of concrete measures should lead to a sustained increase in energy efficiency, and thus an annual savings of a magnitude ranging up to EUR 4 million. Those projects already realized primarily relate to the improved heat insulation of buildings, multiple process optimizations, and a change in combustion fuels from oil to liquid natural gas at the site in Hagfors, Sweden.

The environmental plans at a number of the Metal Engineering Division's Austrian and international sites were specifically geared toward the further optimization of water resources management and energy efficiency across all process steps (including additional heat insulation and heat recovery measures). The same approach applies to the Metal Forming Division, which additionally invested in a number of companies in order to lower production waste first and foremost, and to improve its re-use as valuable raw materials. This was able to substantially improve resource efficiency in production.

For several years now, the ambitious environmental efforts of the voestalpine Group have been honored with national and international distinctions. Thus in June 2012, voestalpine Schienen

¹ Basis: Austrian Group locations because the vast majority of the Group's environment-sensitive emissions policies apply here.

Environmental expenditures¹



GmbH was given the EMAS Award for the “Best Austrian Environmental Team” in recognition of the unique commitment demonstrated by the employees and management staff in minimizing the environmental impact of business operations.

Environmental policy topics

EU 2050 Roadmaps

In 2011, the EU Commission published a series of announcements in the form of so-called “2050 Roadmaps” on the issues of climate policy, energy, and resource efficiency and, with the same time horizon, a white book on the issue of traffic and transportation as well. Meanwhile, the Commission’s Roadmaps were also discussed both by the European Parliament as well as the Council of the European Union. Whereas the EU Parliament was able to agree on a resolution about all

four announcements, the Council was only able to achieve consensus on the resource efficiency roadmap. Thus, the Commission has been given an unequivocal implementation assignment in this area only; in other words, the Commission’s implementation activities are currently restricted to the area of resource efficiency.

In the area of climate policy, the EU Commission is pushing ahead with the further advancement of the Emissions Trading Directive. For example, it has made recommendations on the changes to the auction calendar (“backloading”) to increase certificate prices by means of interventionist measures. In order to continue making progress on the strategic development of climate policy, despite the absence of the European Council’s complete assignment, in March 2013 the Commission launched a public survey about climate policy leading up to 2030.

¹ Basis: Austrian Group locations because the vast majority of the Group’s environment-sensitive emissions policies apply here.

CO₂ emissions trading

The draft of the allocation table that applies to Austria was already published nationally on March 5, 2012, and presented to the EU Commission. However, other member states did not transmit their records until much later; consequently, the review of these proposals is currently still pending. Since the EU Commission can only determine the Cross-Sectoral Correction Factor—which is used to balance the allocations using the EU-wide cap—after all reviews have been completed, the country-specific allocations can only be finalized once the review of all data has been concluded. Hence, at this time it is impossible to make any reliable assertions on the definitive CO₂ cost burden for the next few years.

The compilation of a “Low Carbon Steel Roadmap” by EUROFER, the European Steel Association, currently represents an important focus in this context. It contains more definitive statements on the EU roadmaps and on the technically feasible potential for the European steel industry to reduce CO₂ emissions as well as on the cost-effectiveness of such reductions. Potential is characterized specifically by the optimized use of available quantities of scrap, by the ongoing technological developments of the systems, and—though only on a long-term basis—by so-called “break-through” technologies, such as the partial replacement of the conventional blast furnace route through DRI/EAF steel production, or in other words, through the direct reduction of iron ore and its further processing on the basis of electric furnaces.

Life Cycle Assessment

Life Cycle Assessment (LCA) is a systematic analysis of the environmental impact of products

across their entire life cycle. Moreover, it is also becoming increasingly significant on the customer side. A Group-wide working group was established on this issue within voestalpine (incorporating Purchasing, Sales, Marketing, Production, and Research as well as the environmental sector). In addition to monitoring developments, this working group handles the coordination of various LCA activities, such as data management and active participation in interest groups that represent the industry, for example, EUROFER and the World Steel Association.

Industrial Emissions Directive

The revised version of the Industrial Emissions Directive (IED) 2010/75/EU became effective at the start of 2011, replacing the IPPC Guideline (Integrated Pollution Prevention and Control Directive). It is intended to guarantee the Europe-wide standardization of systems-oriented threshold values and measures for certain industry facilities. On a national level, it is currently being implemented through the relevant administrative laws for facilities requiring permits (Materienrechte), such as the Waste Management Act, the Industrial Code, and Water Rights Act.

Currently at the voestalpine Group, the relevant plants and facilities are being inspected with an eye to any adjustment needs so that the Group can plan for and implement the measures and changes necessitated by these European regulations in a timely manner. To ensure the ecologically efficient implementation of the provisions of the industrial emissions directive on a national level, the Group is also actively involved with the ongoing implementation process within Austria.

Risk management

Since the business year 2000/01, the voestalpine Group has implemented a comprehensive risk management system that was established based on a general, Group-wide policy; in the meantime, it has been updated and expanded on an ongoing basis.

Risk management, as it is understood and practiced in the voestalpine Group, serves to ensure both the continued long-term existence of the Group and an increase in its value, thus representing a key factor in its success.

In accordance with the Austrian Company Law Amendment Act of 2008 (Unternehmensrechts-Änderungsgesetz) and the associated increased importance of an internal control system (ICS) and a risk management system, an Audit Committee has been set up at voestalpine AG, which addresses questions related to risk management and the internal control system (ICS) on an ongoing basis as well as the monitoring thereof.

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 independently monitors operational and business processes and the ICS and, as an independent, in-house department, has full discretion when reporting and assessing audit results.

The systematic risk management process is an integral part of the business processes within the Group; it serves to recognize potential risks early on and initiate appropriate action to avert them. Risk management covers both the strategic and

the operational levels and is therefore a major element in the sustainable success of the Group.

- Strategic risk management serves to evaluate and safeguard strategic planning for the future. Strategies are reviewed to ensure conformity with the Group's system of objectives in order to ensure value-adding growth by way of an optimum allocation of resources.
- Operational risk management is based on a revolving procedure that is run at least once a year across the entire Group. The evaluation of identified risks is implemented using an evaluation matrix that assesses possible losses and the probability of occurrence. The main risks being documented are operational, environmental, market, procurement, technological, financial, and IT risks. This process is aided 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 the required quantity and quality of raw materials and energy, the voestalpine Group has for some years maintained a diversified procurement strategy that reflects the increased risks. Long-term, close relationships with suppliers, the expansion of the supplier portfolio, and the development of the Group's self-sufficiency are the core elements of this strategy that is becoming increasingly important in view of the trend toward higher volatility on the raw materials markets (for

more details, please refer to the “Raw Materials” chapter of this Annual Report).

■ **Guidelines for hedging raw materials price risk**

Management of raw materials price risk determines the effects that fluctuations on the raw materials market have on profit from operations (EBIT). Based on the acquired information and taking the individual distinctive characteristics of each raw material into consideration, price risks for raw materials are hedged by executing delivery contracts containing fixed price agreements or by utilizing derivative financial instruments. An internal guideline regulates the details of the relevant procedure Group-wide.

■ **CO₂ issues**

Risks associated with CO₂ are covered separately in the “Environment” chapter of this Annual Report.

■ **Failure of IT systems**

The servicing of business and production processes that are largely based on complex IT systems is handled 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 security risks, minimum security standards for IT have been developed, and compliance with these standards is reviewed annually by way of an audit. In order to reduce the risk of unauthorized access to IT systems and applications even further, additional periodic penetration tests are carried out.

■ **Failure of production facilities**

In order to minimize the risk of breakdowns of critical production facilities, targeted and comprehensive investments in the technical optimization of sensitive units are undertaken. Consistent preventive maintenance, risk-oriented storage of spare parts, and comprehensive employee training are additional measures.

■ **Knowledge management**

Extensive projects have already been undertaken in the past in order to sustainably secure knowledge and especially to prevent the loss of know-how; these 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 secure knowledge management.

■ **Risks in the financial sector**

Financial risk management is organized centrally with respect to policy-making power, strategy determination, and target definition. The existing rules and regulations include targets, principles, tasks, and responsibilities for both the Group Treasury and the financial department of each Group company. Financial risks are continuously monitored, quantified and—where this is feasible—hedged. The strategy aims to reduce fluctuations in cash flow and income. Market risks are largely secured through the use of derivative financial instruments that are used exclusively in connection with an underlying transaction.

Financing risks are hedged using the following measures:

■ **Liquidity risk**

Liquidity risks generally consist of a company being potentially unable to meet its financial obligations. Appropriate liquidity reserves enable the company to meet its obligations on schedule. The primary instrument for managing liquidity risk is a precise financial plan drawn up quarterly on a revolving basis. Required financing and bank credit lines are determined by the central Group Treasury based on the consolidated operating results.

■ **Credit risk**

Credit risk refers to financial losses that may occur through non-fulfillment of contractual obligations by individual business partners. The credit risk of the underlying transactions is minimized to the greatest degree possible through credit insurance and bankable securities (guarantees, letters of credit). The default risk for the Group's own remaining risk is kept manageable by way of monitoring and close contact with customers—and based on voestalpine's experience during the crisis in recent years—is considered manageable. A high percentage of delivery transactions is covered by credit insurance. Bankable types of security, such as guarantees and letters of credit, are also provided. As of March 31, 2013, 76% of our trade receivables were covered by credit insurance. Counterparty credit risk in financial contracts is managed by way of daily monitoring of ratings and any changes in the CDS levels (credit default swap).

■ **Currency risk**

The Group implements a hedge centrally through the Group Treasury by means of derivative hedging instruments. voestalpine AG hedges budgeted (net) foreign currency payment flows for the next twelve months. Longer-term hedging is only carried out for contracted projects. The hedging ratios are between 50% and 100% of the budgeted payment flows for the next twelve months.

■ **Interest rate risk**

The interest rate risk assessment is made centrally for the entire Group by voestalpine AG by basically differentiating between cash flow risk (the risk that interest expenses or interest income will undergo an adverse change) for variable-interest financial instruments and present value risk for fixed-interest financial instruments. While taking the interest expense into consideration, this strategy aims to minimize the effects of interest rate volatility through the simultaneous management of interest rate risk and interest rate sensitivity. As of the reporting date of March 31, 2013, an increase of the interest rate by 1% will result in a reduction of the net interest expense amounting to EUR 8.2 million in the next business year. This is, however, an assessment of risk potential on the reporting date, and it can be subject to significant fluctuations over time. As voestalpine AG maintains a liquidity reserve to ensure availability of liquidity, it also has interest-bearing investments. In order to avoid interest rate risk stemming from these investments, interest rate exposure on the asset side, expressed by way of the modified duration, is coupled with interest rate exposure on the liability side (asset-liability management).

■ **Price risk**

voestalpine AG also assesses price risk, primarily using scenario analyses to quantify interest and currency risk but also the value-at-risk concept. The maximum potential loss within the next business day and within a year is determined with 95% certainty. This process takes the correlations between the individual currencies into account. The present value basis point method is also applied in the interest management process.

Economic and financial crisis

Based on the knowledge gained as a result of the recent economic and financial crisis and its effect on the voestalpine Group, additional—primarily corporate—measures were taken during the past

several years to minimize risk exposure, and these measures are continuing to be consistently implemented and will be maintained in the coming years. They are in particular 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 with concurrent continual increases in efficiency and ongoing cost optimization
- Having sufficient financial liquidity available even in the event of constricted financial markets, and
- Securing in-house expertise with a view to continuing the long-term expansion of our quality and technology leadership even more efficiently than before

Concrete measures to eliminate or minimize 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 voestalpine Group is exposed to limited, manageable risks that do not threaten the continuation of the Group. There is no indication of any risks that endanger the future survival of the Group.

Report on the key features of the Group's internal control and risk management systems with regard to accounting procedures

In accordance with Sec. 243a (2) of the Austrian Commercial Code (Unternehmensgesetzbuch, UGB) as amended by the Austrian Company Law Amendment Act of 2008 (Unternehmensrechts-Änderungsgesetz, URÄG), 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 Sec. 82 of the Austrian Stock Corporation Act (Aktiengesetz, AktG). Therefore, the Management Board 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 Group guidelines that are designed to avoid the risks associated with the business processes. These Group guidelines set forth measures and rules for avoiding risk, such as, the separation of functions, signature authority rules, and 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 of sensitive activities. Accounting in the respective Group companies is largely performed using SAP software. Starting in this business year, 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. Furthermore, also starting in this business year, reports about critical authorizations and authorization conflicts will be generated automatically.

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

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

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

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

The accounting and controlling departments of the individual Group companies submit monthly reports with key performance indicators (KPIs) to their own Management Boards and managing directors, and, after approval, to 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 or Advisory Board of each Group company and a consolidated report is submitted to the Supervisory Board of voestalpine AG.

As with operational risks, accounting procedures are also subject to risk management. Potential accounting risks are regularly surveyed and avoidance measures implemented. The focus is placed on those risks that are regarded as fundamental to the activities of that company.

Compliance with the internal control system and its quality is monitored on an ongoing basis in the form of audits at 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 of voestalpine AG and, subsequently, to the Audit Committee of the Supervisory Board.

The control systems of each company division are also subject to audit procedures by the auditor within the scope of preparation of the annual financial statements to the extent that these control systems are relevant to the preparation of the Group's consolidated financial statements and to a true and fair view of the Group's financial position.

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

As of March 31, 2013, the share capital of voestalpine AG amounted to EUR 313,309,235.65 and is divided into 172,449,163 no-par value bearer shares. There are no restrictions on voting rights (1 share = 1 vote). voestalpine AG is unaware of any agreements among its shareholders or between its shareholders and third parties that restrict voting rights or the transfer of shares.

Raiffeisenlandesbank Oberösterreich Invest GmbH & Co OG, Linz, as well as the voestalpine Mitarbeiterbeteiligung Privatstiftung (a private foundation for the Company's employee shareholding scheme), Linz, each hold more than 10% (and less than 15%) of the Company's share capital. Oberbank AG, Linz, holds more than 5% (and less than 10%) and Norges Bank (Norwegian Central Bank) holds more than 4% (and less than 5%) of the Company's share capital.

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

With regard to the Management Board's powers that are not derived directly from applicable statutes, such as the purchase of the Company's own shares, authorized or contingent capital, reference is made to item 17 (Equity) of the notes to the consolidated financial statements 2012/13.

The hybrid bond issued in October 2007 with a current volume of EUR 500 million, the hybrid bond issued in March 2013 with a volume of EUR 500 million, EUR 500 million fixed-interest securities 2011–2018, EUR 500 million fixed-interest securities 2012–2018, the promissory note loan that was issued in the fall of 2008 and partly extended in November 2012 in the amount of EUR 237 million, the promissory note loan that was issued in May 2012 in the amount of EUR 400 million as well as the syndicated loan executed in November 2011 in the amount of EUR 800 million (a EUR 400 million loan to consolidate liquidity requirements for investments and repayments, which was drawn in the business year 2012/13, and EUR 400 million as a revolving credit facility to ensure liquidity), and the EUR 250 million loan granted by the European Investment Bank contain so-called change-of-control clauses. With the exception of the hybrid bond, according to the terms of these financing agreements, the bondholders or the lending banks have the right to demand redemption of their bonds or repayment of their loans if control of the company changes. Under the terms and conditions of the hybrid bond issue, the fixed interest rate (interest rate during the fixed-interest periods) and/or the margin (interest rate during the variable interest periods) go up by 5% 61 days after a change in control occurs. voestalpine AG has the right to call and redeem the bonds no later than 60 days after a change in control. According to the terms and conditions of the aforementioned bonds and financing agreements, control by voestalpine AG changes when a controlling interest within the meaning of the Austrian Takeover Act (Übernahmegesetz) is acquired by another party.

The company has no compensation agreements with the members of the Management Board, Supervisory Board, or employees in the event of a public takeover bid.

Outlook

After four and a half years of financial and economic crisis, 2013 was supposed to finally bring a turn for the better in many parts of the world. At least this was the expectation of the majority of the experts, whether they were in renowned economic think tanks or in the political mainstream in the major economic regions. The belief was that the Chinese economy would stabilize after the formation of the new government, that the fiscal cliff problem in the USA was being overstated, and that the European Union would get the sovereign debt crisis in its Southern member states increasingly under control.

Confronted with day-to-day reality that looked quite a bit different, many companies had doubts even then that these optimistic expectations would be fulfilled. Simply said, the facts showed a different picture. Rather, they pointed to a continuation of the stagnating, even recessive, trend in Europe, at best a bumpy recovery in the USA, and continuing economic uncertainties in China. India is lingering in a state of bureaucratic lethargy and the result of Japan flooding its economy with money is completely uncertain; of the major economies, only Brazil is showing a real trend toward recovery.

From today's vantage point, one can say that, unfortunately, global economic reality in early summer of 2013 corresponds precisely to these critical expectations and has very little in common with the repeatedly expressed confidence in the early part of the year. In the meantime, the economic forecast for the year has been revised downward across the board—and that not just once.

Against this backdrop, it appears less and less probable that the hoped for economic recovery will actually occur in the course of this year. It is increasingly unrealistic to hope for more than a

temporary pickup of demand resulting from inventory cycle effects in individual industry segments.

In any case, indications for the next several months from the most important customer industries point largely to a continuing cautious trend as far as demand is concerned. Due to the budget restrictions in the public sector, only very modest growth rates—if there is any growth at all—can be expected in Europe for years to come in the construction and construction supply industries; in the short term, even a continuing recessive trend, especially in Southern Europe must be anticipated. In the USA, the picture is better, however, the improvement is not broad-based enough that it can be considered a far-reaching trend reversal in the construction sector. Even in China, the economic stimulus programs initiated by the new government have not brought the anticipated sweeping success; furthermore, in comparison to past years, the country's economic momentum is being significantly slowed by its accelerated transformation from a state-run economy to one that is driven primarily by consumption.

In the automobile industry, demand in non-European markets is for the most part still satisfactory, however, automobile production in Europe will continue to face a declining trend in the medium term. The main reasons are increased relocation of production facilities to growth markets by a number of manufacturers on one hand and, on the other, more restrained buying habits by European consumers due to the crisis.

In the energy sector, the uptick in new projects in the oil and natural gas production segments, which was anticipated for 2013, has not occurred; therefore, expectations are now focused on the

second half of the year. Apart from China, there is no uptrend in sight in the second half of the year for the other conventional energy generation segments. The same applies to alternative energies, where the cutbacks of subsidies in many countries are making investments increasingly unprofitable.

The consumer goods, white goods, and electrical industries should generally see a comparatively solid level of demand in 2013. The same applies to the mechanical engineering segment as well as the construction and agricultural machinery market, although China has been significantly weaker in some segments, particularly construction machinery, than in recent years.

The aviation industry and the overseas railway sector continue to enjoy a high level of demand.

All in all, the overall economic picture toward the end of the first half of 2013 indicates that, while the downtrend that dominated the second half of 2012 has stopped, the anticipated trend reversal has not—at least not yet—occurred and there are no real signs that it will occur in the next months.

Against this background, the following development appears likely for the voestalpine Group in the first half of the new business year:

■ Steel Division

Full capacity utilization, albeit continuing price pressure in Europe due to continuing weak demand, and volatile raw materials prices that are trending downward.

■ Special Steel Division

With the exception of seasonal fluctuations, practically full capacity utilization with a price level that is mostly stable both for sales and procurement.

■ Metal Engineering Division

Full capacity utilization with a steady level of demand and stable or slightly declining (yet still satisfactory) prices at a solid level.

■ Metal Forming Division

Almost full capacity utilization, however, prices continue to be subdued due to lagging demand; additional challenges due to the start-up phase of new, international production sites.

From today's perspective, there is little change to be expected in the second half of the business year, as the incentives necessary for a more positive trend at the global level are absent—an assessment that is confirmed by the revision of growth expectations in all current economic forecasts.

Despite this economic environment that continues to be challenging, the voestalpine Group—due to its specific competitive position as a quality and technology leader in the high-end steel production sector—should be able to maintain the earnings leadership it has held in recent years in the business year 2013/14 as well.

The accelerated transformation from a steel corporation to a technology and capital goods group enables voestalpine to maintain far greater stability with regard to earnings compared to industry competitors, thus increasing its predictability for the capital markets.

Against the backdrop of continuing global uncertainty about future economic development, from today's vantage point, for the business year 2013/14, an operating result (EBITDA) and profit from operations (EBIT) at about the same level as the past business year can be anticipated.