

Difficult environment has adverse impact on voestalpine's results for the first half of the business year 2019/20

- » **Revenue for the business year's first six months declines by 2% year over year, from EUR 6.7 billion to EUR 6.5 billion**
- » **Operating result (EBITDA) is down 23%, from EUR 860 million to EUR 666 million**
- » **Profit from operations (EBIT) falls by 52%, from EUR 480 million to EUR 230 million**
- » **Profit before tax falls by 61%, from EUR 422 million to EUR 163 million, and profit after tax by 64%, from EUR 320 million to EUR 115 million**
- » **Dividend payment, redemption of hybrid bond, and change in accounting policies (IFRS 16) raise gearing ratio from 55% to 75%**
- » **51,275 employees (FTE) as of September 30, 2019**
- » **Economic downturn in Europe, worldwide trade disputes, and conditions in the European steel market depress earnings**
- » **Group's technology segments railway systems, aerospace, storage systems, and welding technology deliver stable performance in a difficult macroeconomic environment**

For the voestalpine Group, the first half of the business year 2019/20 was defined by a substantial dampening of sentiment in its economic environment. Particularly in Europe, where voestalpine generates about two thirds of its revenue, the weakening of the export industry due to increasing global barriers to trade, decreasing demand from the automotive industry as well as fewer investments affected all of the Group's divisions. But the global trade disputes are being reflected in declining economic momentum in China and the United States too. The adverse conditions in the steel sector intensified all the more on account of massive increases in raw materials prices in tandem with decreasing sales prices and large volume steel imports into Europe that continue unabated. Furthermore, the financial expenditures for CO₂ allowances in the European Union as well as the corporate issue of start-up costs at the Group's Automotive Components plant in Cartersville, Georgia, USA, continued to have adverse impact on the profit margins.

"The economic downturn, which has been gathering speed in our key markets since the start of the current business year, along with the extremely challenging conditions in the steel sector, caused all earnings categories of the voestalpine Group to decline in the first six months of the business year 2019/20. In order to ensure that earnings are stabilized and the Group's financial strength is restored as soon as possible, we are currently doing everything in our power to implement cost-cutting and efficiency enhancement programs throughout the Group," says Herbert Eibensteiner, Chairman of the Management Board of voestalpine AG. "I want to emphasize at the same time that our consistent, strategic focus on becoming a one-stop provider of special and complete systems is paying off in these challenging times. For instance, our technology segments railway systems, aerospace, storage systems, and welding technology delivered stable performance in the business year's first half despite the economic downturn."

Development of revenue and earnings figures

Following years of growth, voestalpine's revenue was down 2% in the first half of the business year 2019/20, from EUR 6.7 billion in the same period of the business year 2018/19 to EUR 6.5 billion in this reporting period. The decline in earnings was even greater: The operating result (EBITDA) dropped by 23%, from EUR 860 million in the same period of the previous business year to EUR 666 million in the current business year. EBIT fell by more than one half (from EUR 480 million to EUR 230 million) in the same period. At net financial income of minus EUR 67 million, the profit before tax for the current reporting period is EUR 163 million (previous year: EUR 422 million). At EUR 115 million, the profit after tax was down 64% from the previous year's level of EUR 320 million.

Besides the Group's operating performance and the dividend payment, the gearing ratio (net financial debt as a percentage of equity) of the voestalpine Group in the first half of the business year 2019/20 was also materially affected by accounting factors. For one, the interest-bearing liabilities rose by around EUR 437 million on account of a change in the International Financial Reporting Standards (IFRS)—specifically, the recognition of leases pursuant to IFRS 16—relative to the March 31, 2019, reporting date. For another, the EUR 500 million hybrid bond issued in 2013 was called as of October 31, 2019, with the result that, as of September 30, 2019, it is recognized in financial liabilities instead of in equity. Given these developments, the Group's net financial debt climbed from EUR 3.6 billion as of September 30, 2018, to EUR 4.5 billion as of September 30, 2019. Equity declined from EUR 6.6 billion to EUR 6 billion in the same period due to the dividend payment and the redemption of the hybrid bond. In turn, this caused the gearing ratio to rise year over year from 55% to 75%.

Investments and human resources

Having made large investments in recent years, the voestalpine Group is cutting back on its investment activity in the current business year against the backdrop of the weakening economy. Accordingly, the investment volume in the first six months of the business year 2019/20 was down 29%, from EUR 475 million in the same period the previous year to EUR 338 million in the reporting period. The Group's largest ongoing investment project—the construction of a new high-tech special steel plant at a cost of up to EUR 350 million at its Kapfenberg, Austria, site—is proceeding as planned (the factory floor is being built at this time) and is slated to become operational in 2021. As of September 30, 2019, the voestalpine Group had 51,275 employees (FTE), which equates to a slight decline of 1.3%.

Outlook

The Management Board's assessment at the start of the business year 2019/20—specifically, that the previous year's performance based on EBITDA would probably be achievable again in the current business year—was premised on a number of factors. The key market and cost variables underlying the assessment at the time were as follows: a cooling of the economy in markets that are material to voestalpine, but no recessionary or crises scenarios; a cooling of momentum in the automotive industry, but no new dramatic distortions in the automotive market on account of the new emissions test to be introduced in Europe in September 2019; no negative effects from the global trade conflicts or the Brexit above and beyond the anticipated cooling of the economy; a normalizing of iron ore

prices over the course of the business year as well as positive dispositions of challenges internal to the company.

Key assumptions largely did not come to pass over the first six months of the current business year. While the intracorporate challenges are being dealt with and certain improvements are still expected to be realized, the slowdown in the momentum of the automotive industry has been both more intense and widespread than originally expected, even though the new emissions test that was introduced in September of this year did not trigger the distortions seen a year ago. The global trade war along with protectionist policies have clearly crimped investments in many parts of the world and thus have led, particularly toward the end of the first half of the business year 2019/20, to significant demand declines in many markets that are key to the voestalpine Group. Although iron ore prices did ease over the summer, the expected margin growth did not materialize. Record imports into the European Union combined with weak intra-European demand continued to depress steel prices at the end of the current reporting period.

Given these negative macroeconomic developments, the scenario posited at the start of the current business year no longer applies. From today's vantage point, it is to be expected that the third business quarter is likely to be as difficult as the second quarter of the business year 2019/20 in terms of earnings. Positive effects from both seasonal influences and the resolution of intracorporate issues as well as earnings contributions from the steps taken to lower costs and boost efficiency should take effect in the business year's last quarter.

In this difficult environment, the Management Board's focus is on measures designed to stabilize earnings and generate free cash flow. Aside from short-term actions, over the next few months this will also entail examining the ramifications of the changed global economic framework for the positioning of all of the Group's material business segments.

"At this point in time, the Management Board of voestalpine AG thus expects EBITDA of about EUR 1.3 billion for the business year 2019/20—an assessment that is largely in line with market expectations," says Eibensteiner.

The voestalpine Group

In its business segments, voestalpine is a globally leading technology and capital goods group with a unique combination of materials and processing expertise. Voestalpine, which operates globally, has around 500 Group companies and locations in more than 50 countries on all five continents. It has been listed on the Vienna Stock Exchange since 1995. With its top-quality products and system solutions using steel and other metals, the voestalpine Group is a leading partner of the automotive and consumer goods industries as well as of the aerospace and oil & natural gas industries. voestalpine is also the world market leader in complete railway systems as well as in tool steel and special sections. In the business year 2018/19, the Group generated revenue of EUR 13.6 billion, with an operating result (EBITDA) of EUR 1.6 billion; it had just under 52,000 employees worldwide.

voestalpine AG

Please direct your inquiries to:

voestalpine AG
Mag. Peter Felsbach
Head of Group Communications | Group Spokesperson

voestalpine-Strasse 1
4020 Linz, Austria
T. +43/50304/15-2090
peter.felsbach@voestalpine.com
www.voestalpine.com