Report of the Management Board

Management Report 2014/15

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 Section 245a of the Austrian Commercial Code *(UGB)*. We have made use of the provision under Sec. 267 (4) of the Austrian Commercial Code, which permits the consolidation of the Management Report and the Group Management Report.

Report on the Group's business performance and the economic situation

The global economic landscape in the business year 2014/15 was largely characterized by a continuation of the trend seen in previous periods. While the economy in North America remained on a path of stable growth, despite a great deal of optimism in the early part of the year, Europe ultimately experienced a volatile trend that was once again very cautious in its overall perspective. Of the most important emerging markets, China continued to be the sole reliable growth region. Due to the Ukraine conflict, Russia slipped into recession. Brazil's quarterly reports alternated between recession and stagnation as a result of homegrown problems. And in India, efforts by the new government to reignite the economy began to make themselves felt but did not culminate in any really notable results.

The most significant supraregional developments in the past business year were the considerable shift in the global rate of exchange maze with a US dollar that kept getting stronger and a weakening of the yen, the yuan, and the euro on one hand and on the other, massive pressure on many raw materials prices, particularly iron ore and oil. While this development abetted undesirable deflationary trends on one hand, on the other, it was precisely the low oil price that raised expectations of a positive global impact on consumption that would stimulate economic growth.

Europe

Europe started the business year 2014/15 with a solid wind in its sails economically speaking. In addition to improving private consumption in a number of countries, the early part of the year saw the first noticeable positive signs in a long time in the construction industry, which, however, flattened out somewhat even before the first half of the year was over. Over the summer, the European economy cooled substantially, not least due to the escalation in the Ukraine with the subsequent tensions between Russia and the West. The fall saw a phase of increased economic volatility that evolved into a moderate revival of growth toward the end of the 2014 calendar year. The positive development was driven to a large extent by private consumption, while investment activity in Europe—like the entire business year 2014/15 overall—remained weak. This was the direct result of a continued high level of sovereign debt in a number of nations and exports that continued to be subdued as a result of sluggish development in many former emerging markets.

Toward the end of the calendar year, the European Central Bank announced an expanded quantitative easing program to purchase bonds in order to counter the risk of increasing deflationary tendencies due to an overlong phase of low inflation. The measure to stimulate the economy had a direct positive impact on the economic situation. Together with euro that is weakening vis-à-vis the other important global currencies, notably the US dollar, and thus making it easier for exports, in the past few months, Europe has been experiencing an economic trend that—for the first time in quite a while—is showing increasing and broad-based momentum. Only Greece has not been able to match this recovery that has become noticeable in the countries along Europe's southern periphery; Spain and Portugal are increasingly reporting positive growth trends, and the situation in Italy has stabilized and the country is no longer in a recession.

In this environment, the business trend in Europe for voestalpine has been quite satisfactory, albeit it was quite volatile at various points of the year. While the automobile industry, the Group's most important segment, improved its already very good level (with positive effects on all four divisions), the situation in the European construction industry, which had improved at the beginning of the year, waned increasingly as the year progressed. In contrast, in the area of transportation infrastructure, the European railway market has demonstrated growing momentum, but large portions of the energy sector have experienced a massive economic slump in the wake of the sanctions resulting from the escalation of the Russian-Ukrainian conflict and the rapidly deteriorating oil price. The mechanical engineering sector has been mostly weak, although there were some signs of recovery toward the end of 2014, while the white goods and consumer goods industries have shown a mostly unremarkable trend throughout the year.

North America

The development in North America has been mostly exactly the opposite to the situation in Europe. A positive growth trend remained largely stable over the course of the past business year; only toward the beginning of the 2015 calendar year did the economy cool somewhat, but this represented more of a stabilization at a high level than any kind of downturn.

As the year progressed, economic forecasts were revised upward multiple times, the leading macroeconomic indicators achieved record levels, and the unemployment rate continued to decline. In this environment, the Fed (Federal Reserve) announced that it was considering ending its low interest policies. However, toward the end of the 2014 calendar year, this line of thought became more and more cautious and open to more interpretation. The reason for this are the slightly less favorable growth expectations due to the relative strength of the US dollar vis-à-vis the euro and other currencies since the early part of 2015, which made it increasingly difficult for US exports.

The somewhat subdued economic development in the USA since the beginning of 2015 is presumably also the result of somewhat lower public sector spending on one hand and harsh weather conditions, especially the unusually tough winter in many parts of the country, on the other. Furthermore, the sharp global fall of the oil price has seriously undermined investments associated with exploration activities in states with intensive oil and natural gas production.

Overall, however, the slightly slower economic growth in the first calendar quarter of 2015 should be seen as a temporary phase of consolidation rather than an economic trend reversal, and the expectation is that the summer months will see a return to the growth path of the past several years.

Economic development in Canada has generally been considerably weaker, however, the country has been largely spared from the negative effects of the financial and economic crisis in recent years. On the other hand, the Mexican economy

has been making even more progress than the US economy. This is being driven by policies that have been ever more liberal in the last few years, making Mexico a real hot spot on the investment map of many industrial sectors.
For voestalpine, this environment in North America has meant excellent demand for automotive components right off the bat from the Metal Forming Division's newly erected plant in Cartersville, Georgia, and solid development in the Special Steel Division's tool steel and high-speed steel segments, which is also being driven by the automotive sector as well as the consumer goods industry.
The development in the railway infrastructure market (Metal Engineering Division) continues to be favorable; the same applies to the aviation industry, where demand for components manufactured by the Special Steel and Metal Forming Divisions remains strong.
Diminishing oil and natural gas exploration activity is currently the one weak point of the US economy. Toward the end of the business year, this had an adverse impact on the seamless tube business of the Metal Engineering Division.

Brazil / South America

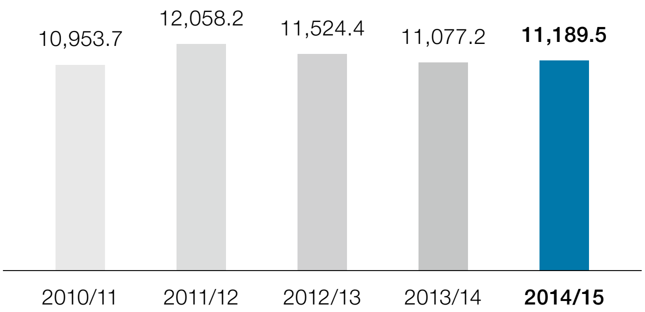
The crisis-ridden economic situation in Brazil with high inflation and high interest rates continued in the business year 2014/15. In addition to internal problems, the global deflationary development with regard to raw materials prices is contributing to the difficult situation of the largest economy in South America. Even though as of the end of the 2014 calendar year, Brazil is technically no longer in a recession and rudimentary growth of 0.3% compared to the same quarter of the previous year was reported, an improvement of the economic development cannot be expected in the short term as—instead of changing structural framework conditions—the country's reaction has been to wall itself off from the global market by way of import duties. Overall, however, growth rates of only 1 to 2% are expected for Brazil in 2015 and 2016, figures that are clearly too low for an emerging economy and that do not do justice to the country's enormous economic potential.
In this environment, voestalpine faced challenging framework conditions in practically all market segments; however, by orienting itself even more strongly toward exports and by undertaking massive efficiency improvement measures, earnings were largely kept at a stable level.
The economic development of the other South American countries has been critical almost without exception for some time, resulting in cautious investment activity.

China / Asia

Although leading macroeconomic indicators such as the Chinese PMI (Purchasing Manager Index) fell under 50 points during the past year, fueling fears about imminent weaknesses in the largest Asian economy, China was nevertheless again able to achieve economic growth of around 7% in 2014—not least because of intervention by the central government, which primarily consisted of a more expansive money market policy and new stimulus programs. Nevertheless, in the early part of 2015, imports fell, and industrial development in January and February 2015 was surprisingly subdued. Uncertainty has also surrounded the real estate market, with property prices falling and new construction diminishing. While the country itself has very little debt, fears relating to hidden credit bubbles emerging from the shadow banking industry are stoking economic uncertainty.
When assessing the current situation, however, it should not be overlooked that in recent years, China usually started the year with weak growth and then recovered. For 2015, macroeconomists are therefore anticipating economic growth in the neighborhood of 6% to 7%, with expectations tending toward the higher figure. The fact that

Revenue of the voestalpine Group

In millions of euros



many industries continue to develop quite positively is one of the reasons for this forecast. In 2014, China replaced the USA as the largest automobile market worldwide. Sales of products manufactured in the newly built voestalpine plants for automobile components (Metal Forming Division) are therefore going well and sales to the automotive sector in China by the Special Steel Division (tool steel and high-speed steel) show a solid level of demand. Investments in expansion in the railway infrastructure sector also remained at a high level, so that—despite the generally rather cautious mood—the region continues to develop very positively for the voestalpine Group.

In 2014, the economic development of the countries of Southeast Asia was for the most part dynamic. Japan, however, lagged considerably behind the original growth expectations despite its export-friendly currency policies. voestalpine activities in this region are primarily undertaken by the Special Steel Division. Even in a global comparison, these activities are characterized by very strong growth.

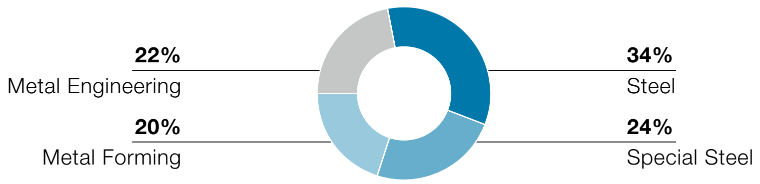
Due to its new government, India is expected to increase its economic momentum in the coming years, although 2014 was still very much characterized by the transition between the old and new governments. Should the generally positive expectations for the Indian market be fulfilled, it will have significant future potential for the voestalpine Group.

Business performance of the divisions

The Steel Division with its clear market focus on Europe experienced a good level of demand for high-quality steel products, at the same time however, it also faced falling prices due to the deflationary development of raw materials prices. Nevertheless, it was possible to more than compensate this development through volume increases on one hand and on the other, by way of the first positive effects of the cost optimization and efficiency improvement measures that had been decided upon in 2014. Thus, the business year 2014/15 showed clearly improved earnings compared to the previous year, even though the

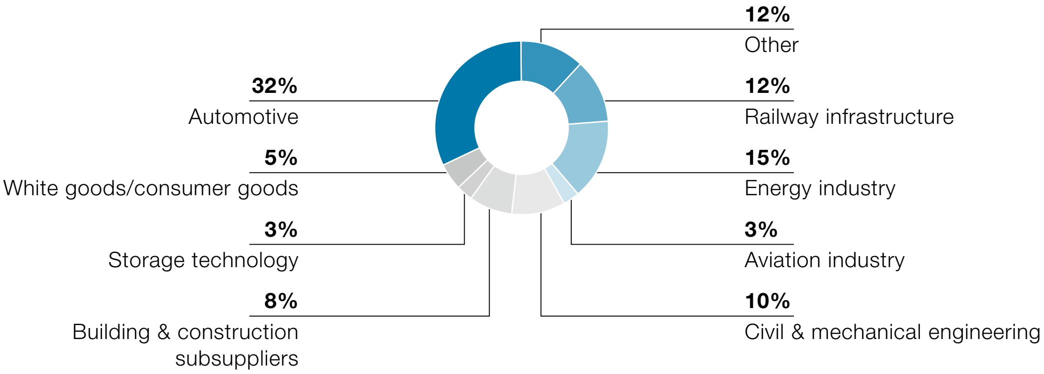
Revenue by divisions

As percentage of total divisional revenue
Business year 2014/15



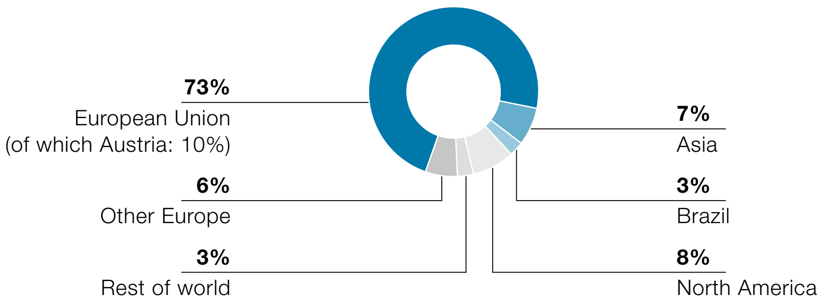
Revenue by industries

As percentage of Group revenue
Business year 2014/15



Revenue by regions

As percentage of Group revenue
Business year 2014/15



level of earnings is still far removed from pre-crisis figures.
Due to its global presence, the Special Steel Division profited from the positive economic environment in North America and Asia, where demand for high quality tool steel and special materials across most industry segments was at a solid level. Toward the end of the business year, the market recovered somewhat in Europe as well, so that the business year 2014/15 was ultimately quite positive overall for the Special Steel Division as far as earnings are concerned compared to previous years.
The Metal Engineering Division was once again able to continue its outstanding performance in recent years in the business year 2014/15 as well, driven primarily by strong demand from the railway infrastructure sector in North America, Europe, and Asia. This development was supported and sustained by comparable earnings in the Wire, Seamless Tube, and Welding Consumables business segments.
In the automobile component segment, the development of the Metal Forming Division continued to be characterized by very good demand in Europe, but also at the newly constructed sites in North America, Asia, and South Africa. Activities in the Special Section and Precision Strip business segments found a satisfactory global market environment overall, so that, overall, the still young division enjoyed a sustained solid performance in the business year 2014/15.

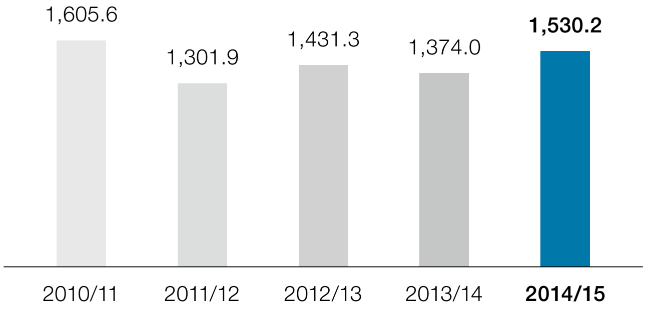
Report on the financial key performance indicators of the voestalpine Group

Revenue and operating result

In 2014/15, despite the weakening of the market price level in a number of business units due to the decline of raw materials prices, the voestalpine Group's revenue rose slightly in a year-to-year comparison, going up by 1.0% from EUR 11,077.2 million to EUR 11,189.5 million. At 5.7%, the Special Steel Division, which was least affected by the decline of raw materials prices, reported the largest revenue gain, while the Steel Division's revenue increase was comparatively moderate at 1.7%. In contrast, the Metal Engineering Division and the Metal Forming Division both recorded a slight decrease in revenue. While the Metal Engineering Division's decline in revenue is due to the closure of the standard rail production in Duisburg as of the end of the 2013 calendar year, the reason for the decrease in the Metal Forming Division is the divestment of the Flamco Group and of the Plastics operations during the year under review (see Chapter "Acquisitions/Divestments").
All four divisions were able to increase their operating result (EBITDA) in the business year 2014/15. In the Steel Division and the Special Steel Division, the gain was due to an increase in delivery volumes as well as the first positive effects from the cost optimization and efficiency improvement programs. While in the Steel Division the boost in volume is largely due to the (temporarily) stronger energy segment, in the Special Steel Division, the reason lies in higher demand for tool steel and special materials, particularly from Asia and North America. In the Metal Engineering Division, the weakening of the Welding Consumables business segment was compensated by an expansion of activities in the Turnout Systems business segment. In the Metal Forming Division, the rise in EBITDA is the result of non-recurring effects totaling EUR 61.9 million from the sale of the Flamco Group in August 2014, the agreement to sell the automotive companies voestalpine Polynorm Van Niftrik B.V. and voestalpine Polynorm Plastics B.V. at the end of September 2014, and a structural reorganization of pension obligations in several Dutch companies belonging to the division. It should be mentioned here that the loss of earnings contributions from the divested companies is not taken into account in the non-recurring effects. Against this backdrop, the voestalpine Group's EBITDA rose by 11.4% from EUR 1,374.0 million to EUR 1,530.2 million. Adjusted by the non-recurring earnings contributions, EBITDA in the business year 2014/15 amounted to EUR 1,468.3 million, which equals an adjusted increase of 6.9%.

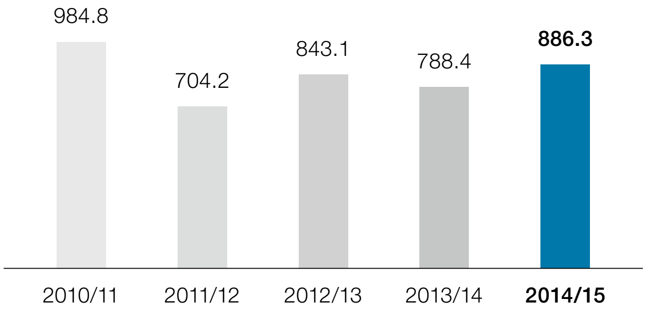
EBITDA

In millions of euros



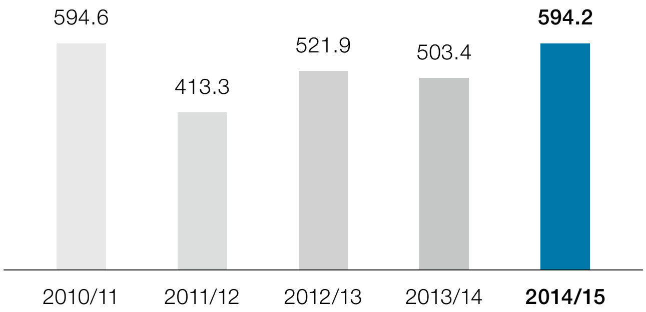
EBIT

In millions of euros



Profit for the period

In millions of euros



At 12.4%, profit from operations (EBIT) went up by a similar range in terms of percentages as the operating result; in absolute terms, EBIT rose from EUR 788.4 million to EUR 886.3 million. This includes a non-recurring earnings contribution of EUR 45.2 million due to the described one-time effects and is reduced by impairment losses on individual assets that do not form part of the core business. Thus, adjusted EBIT rose by 6.7% to EUR 841.1 million.

Profit before tax and profit for the period

The improvement by 15.6% in the profit before tax, which went from EUR 640.8 million in the business year 2013/14 to EUR 740.9 million in the year under review, was even more significant than in the operational sector. Adjusted by the non-recurring effect of EUR 45.2 million, profit before tax shows a gain of 8.6% to EUR 695.7 million. Despite a higher gross financial debt due to refinancing hybrid bond 2007 (volume EUR 500.0 million), which was redeemed as of the end of October 2014, the net interest charges were reduced year-over-year by 1.5% from EUR 147.6 million to EUR 145.4 million. The bond was refinanced through a corporate bond, which was issued in mid-October 2014 with a volume of EUR 400.0 million. While hybrid bond 2007 was recognized in equity, corporate bond 2014 is recognized as part of borrowed capital. Besides higher finance income, the primary reason for the lower interest charges was the declining interest rate in the past business year. Profit for the period as of March 31, 2015 comes to EUR 594.2 million (previous year: EUR 503.4 million), an increase of 18.0%. After deducting the non-recurring effects (EUR 42.4 million), there is a plus of 9.6%, bringing this figure to EUR 551.8 million. The income tax rate, which fell from 21.4% to 19.8% had a positive impact on this reporting category because, among other reasons, there were no taxes on earnings for most of the non-recurring effects.

Proposed dividend

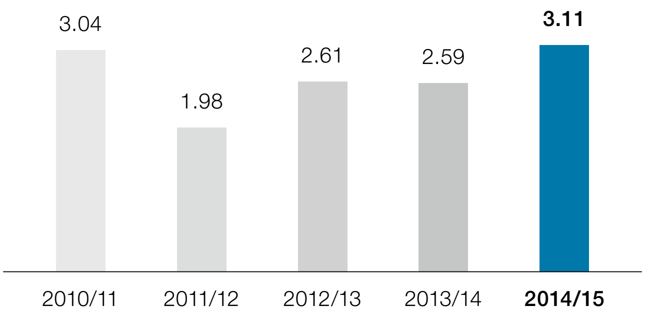
Subject to the approval of the Annual General Shareholders' Meeting of voestalpine AG, which will take place on July 1, 2015, a dividend of EUR 1.00 per share will be paid to shareholders, an increase of 5.3% compared to the business year 2013/14 (dividend of EUR 0.95 per share). With regard to the earnings per share of EUR 3.11, this means a distribution ratio of 32.2%. Assuming an average share price of the voestalpine share in the business year 2014/15 of EUR 32.86, the dividend yield is 3.0%, the same as in the previous year.

Gearing ratio

In a year-over-year comparison, the equity of the voestalpine Group declined by 3.0% from EUR 5,261.6 million as of March 31, 2014 to EUR 5,102.5 million as of March 31, 2015, although at EUR 594.2 million, the profit for the period experienced a positive trend. In contrast, however, net financial debt rose during the same period by 23.0% from EUR 2,421.4 million to EUR 2,978.1 million; as a result, the gearing ratio went up from 46.0% to 58.4%. On the one hand, this development was triggered by a change in the financing structure due to the previously mentioned refinancing of hybrid bond 2007, which is recognized in equity, by corporate bond 2014, which is reported as part of borrowed capital; consequently, equity fell by EUR 500.0 million and, at the same time, net debt rose accordingly. On the other hand, ultimately, items that did not affect income in the consolidated statement of comprehensive income in the business year 2014/15 had a significant impact on equity. While foreign currency translation boosted equity by EUR 142.2 million (previous year: EUR –111.4 million), equity declined by EUR 186.6 million (previous year: EUR –28.2 million) due to actuarial losses. The positive effect in respect to foreign currency translation is primarily the result of an increase in assets and debt of US subsidiaries because of the appreciation of the US dollar vis-à-vis the euro, the Group's reporting currency, as of March 31, 2015 in a year-to-year comparison. The actuarial losses are the result of the change in the discount rate with regard to pensions and other employee obligations. In this context, it is remarkable that despite the Group's

EPS – Earnings per share

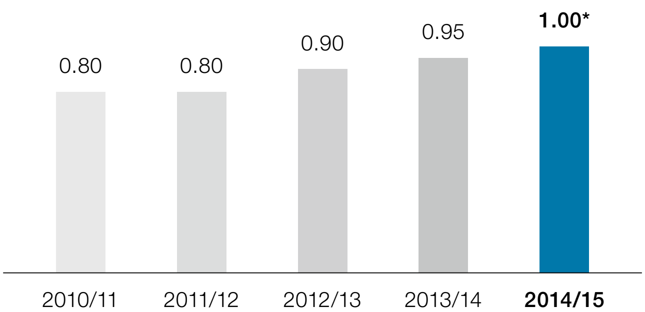
In euros



Dividend per share

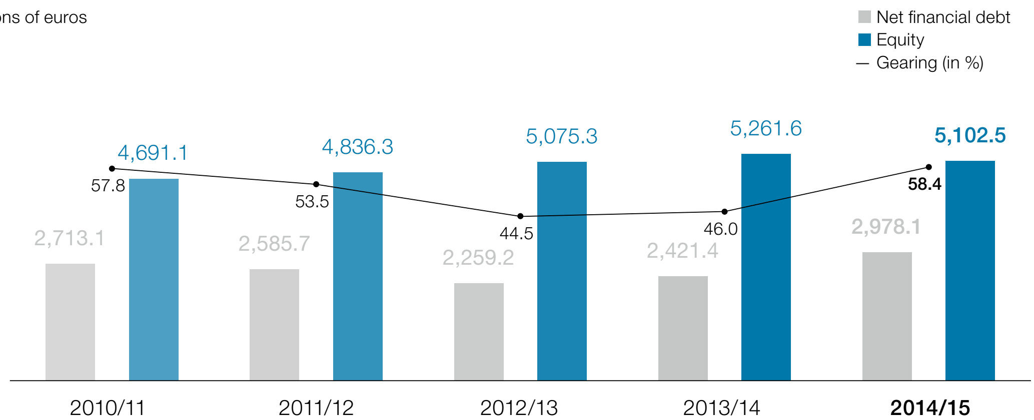
In euros

* As proposed to the Annual General Shareholders' Meeting.



Net financial debt – Equity – Gearing ratio

In millions of euros



considerably expanded investment activities in the reporting year, the gearing ratio would have improved even more if it had not been for the change in the equity/debt ratio as a consequence of hybrid bond 2007 being called.

Cash flow

Cash flow from operating activities rose significantly by 19.8% from EUR 934.6 million in the business year 2013/14 to EUR 1,119.9 million in the year under review. Besides the higher profit for the period, the cash outflow related to net working capital was substantially lower compared to the same period in the previous year. The outflow of financial resources, however, rose significantly as a result of increased investment activities, so that the cash flow from investing activities went from EUR –782.7 million to EUR –928.0 million. The Group's financing measures in the business year 2014/15 resulted in a cash flow of EUR –289.6 million (previous year: EUR –695.6 million). In addition to dividend payments, servicing of the hybrid capital was primarily the reason for a decrease in funds, while the largest item under cash inflows results from the issue of corporate bond 2014.

Quarterly development of the voestalpine Group

In millions of euros					BY		
	1st quarter 2014/15	2nd quarter 2014/15	3rd quarter 2014/15	4th quarter 2014/15	2014/15	2013/14[1]	Change in %
Revenue	2,826.7	2,734.4	2,693.8	2,934.6	11,189.5	11,077.2	1.0
EBITDA	363.7	393.2	330.3	443.0	1,530.2	1,374.0	11.4
EBITDA margin	12.9%	14.4%	12.3%	15.1%	13.7%	12.4%	
EBIT	218.4	226.3	182.7	258.9	886.3	788.4	12.4
EBIT margin	7.7%	8.3%	6.8%	8.8%	7.9%	7.1%	
Profit before tax (EBT)	192.9	198.8	138.9	210.3	740.9	640.8	15.6
Profit for the period[2]	158.9	173.5	120.9	140.9	594.2	503.4	18.0
Employees (full-time equivalent)	47,463	47,379	46,461	47,418	47,418	47,485	–0.1

[1] Business year 2013/14 retroactively adjusted. Further details are given in the Notes to the consolidated financial statements under „B. Summary of accounting policies / General information."

[2] Before deduction of non-controlling interests. In the first three quarters of BY 2014/15 the tax effects on hybrid capital interest and on costs associated with issuing hybrid capital were recognized directly in equity in accordance with IAS 8.

Significant events in the course of the year

Changes in the composition of the Management Board of voestalpine AG

At its meeting on June 3, 2014, the Supervisory Board of voestalpine AG resolved to expand the Management Board from five to six members effective October 1, 2014. This will ensure the consistent and continuing strategic development of the Group and reflect the accelerated expansion of its global activities. As part of this expansion, changes were also made in the management of two of the four divisions: Dipl.-Ing. Dr. Peter Schwab, who was head of R&D at voestalpine for twelve years, advanced to become a member of the Management Board of voestalpine AG, where he took over the management of the Metal Forming Division from Dipl.-Ing. Herbert Eibensteiner, who took over the management of the Steel Division. Dr. Wolfgang Eder, who had been heading the Steel Division since 1999 in addition to his role as CEO, is now concentrating solely on the central areas of responsibility since October 2014 and can therefore devote his time increasingly to the future growth and continued internationalization of the Group. Furthermore, some of the areas of responsibility were redistributed among the individual members of the Management Board.

Efficiency and cost optimization program 2014–2016

In the spring of 2014, the Management Board resolved the implementation of a Group-wide cost optimization and efficiency improvement program aimed to save EUR 900 million over the course of the business years 2014/15, 2015/16, and 2016/17.

Due to the diverse challenges and structures of the individual divisions, from the very beginning, the program was characterized by specific focal points, ranging from hard cost-cutting, efficiency improvement, and personnel adjustment to optimization in the energy and raw materials segments, improved exploitation of Group-wide synergies and through to restructuring of sites whose performance is inadequate.

In the past business year, the targets were broken down to the individual operating units, potential was sounded out, projects were defined, and implementation was begun. After this introductory phase and a successful start of project implementation, the first concrete successes are becoming evident. For example, based on a completely new organizational structure, within the next two years the Steel Division will be able to save significant overhead costs. At the energy efficiency end of the spectrum, for instance, the already completed, successful start-up of the coal injection systems in all three blast furnaces at the Linz site will make a substantial contribution to cost optimization as soon as the current business year so that an increase in earnings can be expected.

In the Special Steel Division, the comprehensive restructuring of the Wetzlar, Germany, site was again stepped up and in Villares, Brazil, efficiency improvement programs were put in place as a reaction to the difficult market situation and they are already showing their effectiveness. The organization at both sites was also significantly streamlined. Furthermore, by implementing a division-wide efficiency improvement project, the use of energy at all major sites was reduced.

In the Metal Engineering Division, North American sites in the turnout sector were combined, resulting in significantly improved performance. At the same time, at the steel end of the Metal Engineering Division, a new burden optimization program was implemented, which will enable blast furnaces to be relined in the future without significant negative effects on the division's sales volume.

In the Metal Forming Division, the focus of optimization measures in the past business year was on the successful sale of the Plastics operations and the Flamco Group as part of its portfolio streamlining.

According to indicative rough calculations, even in the start-up phase of the program, it was possible to achieve initial savings that were recognized in income beyond the positive effects on earnings resulting from divestment measures in the Metal Forming Division. However, it must be pointed out again that past experience with such programs shows that over time, the achieved earnings improvements are subject to an ongoing erosion process. The reason for this is ongoing cost inflation on one hand—for example in the personnel, energy, and environmental sectors—and on the other, the fact that customers expect ongoing increases in productivity that can be incorporated into price mechanisms.

Corporate Responsibility Report

The first Group-wide Corporate Responsibility Report of voestalpine AG was published in the fall of 2014. The report that complied with the requirements under "GRI G3," provides comprehensive information about the status quo and current developments within the Group with regard to sustainability. Concurrently with the report, the Corporate Responsibility pages went live online.

- The exact link is: http://www.voestalpine.com/group/en/group/corporate-responsibility

Corporate Governance Report

The Corporate Governance Report for the business year 2014/15 was published on the voestalpine AG website under the heading "Investors."

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

Significant events after the final reporting date

Capital increase to expand the employee shareholding scheme

The capital increase that was resolved by the Management Board on March 9, 2015 and approved by the Supervisory Board on March 26, 2015 of 2.5 million no-par value shares was recorded in the Commercial Register on April 25, 2015 and is therefore effective as of this date. As of April 25, 2015, the share capital of the Company amounts to EUR 317,851,287.79 and is divided into 174,949,163 shares. Each share carries the right to one vote.

Changes in the scope of consolidation

In early April 2015, control was obtained of the previously jointly controlled companies voestalpine Tubulars GmbH & Co KG and CNTT Chinese New Turnout Technologies Co., Ltd.; these companies will therefore be fully consolidated beginning with the business year 2015/16. For detailed information about these changes, please refer to the Notes, Chapter F. Acquisitions after the reporting date.

Investments

In the past business year, the voestalpine Group invested a total of EUR 1,177.8 million, an increase of 25.8% compared to the same period in the previous year, which saw investment expenditure at EUR 936.0 million. Expenditure in the individual divisions was as follows: Steel Division at EUR 570.6 million (2013/14: EUR 447.4 million), Special Steel Division at EUR 159.3 million (2013/14: EUR 181.8 million), Metal Engineering Division at EUR 269.0 million (2013/14: EUR 164.2 million), and Metal Forming Division at EUR 169.8 million (2013/14: EUR 130.6 million). Of the total amount of EUR 1,177.8 million, 96.5% (EUR 1,136.8 million) were attributable to investments and 3.5% (EUR 41.0 million) to acquisitions.

The Steel Division's investment projects extended along the entire value chain, from the metallurgical sector to rolling mills, in order to continue to enhance its pioneering role in technology in Europe on one hand and to bolster efficiency and cost structure on the other. The largest current project as far as volume is concerned is the construction of the direct reduction plant in Corpus Christi, Texas, USA, which will be the largest and most modern plant of its kind. Construction began in June 2014 immediately after the successful completion of the environmental impact assessment and once all the necessary official permits had been obtained. The port facilities have now almost been completed and construction of the main plant, the 137-meter-high reduction tower, is expected to be finished at the end of the 2015 calendar year. Then supply of the Austrian steel sites Linz and Donawitz as well as a number of external customers with high-quality pre-material for steel production (hot briquetted iron/sponge iron) can begin. Another step to optimize the use of reducing agents was completed toward the end of the business year 2014/15; coal injection systems were installed in all three blast furnaces in Linz. In the steelworks segment, construction of continuous casting plant 8 and secondary metallurgy system 4 (commissioning scheduled for the fall of 2015) was contracted and work was begun; these projects are important in the quest to continue to improve the product mix. In the past business year, the most important projects in the rolling mill segment were the modernization of the pickling-tandem line in cold-rolling mill 2 and of hot-dip galvanizing plant 2 as well as construction of a new heavy plate rolling stand (commissioning scheduled for the fall of 2015).

In the past business year, the Special Steel Division also expanded its leading role with regard to technology and quality in its product segments by undertaking a large number of investments, in the areas of both production and sales. For example, at the site in Hagfors, Sweden, another electro-slag remelting facility was acquired for the production of high-quality tool steel. At Villares Metals S.A., Brazil, considerable new investments were made in the wire production, while at Böhler Edelstahl GmbH & Co KG at the site in Kapfenberg, Austria, new facilities for the processing of bright steel were commissioned. As part of the consistent implementation of voestalpine's value-added strategy, new centers for the high-tech coating (PVD coating) of tools based on the technology developed by the German Eifeler Group, which was acquired in 2013, were built in the sales sector in Shanghai, China, and in Taiwan. The past business year also saw significant expansion of heat treatment of tool steel at a number of sites; this is a step that is upstream of the coating segment. The new service center near Istanbul, Turkey, which is situated in direct proximity to a number of existing customers, not only sells special steel but also has a hardening facility for tool steel. In the fourth quarter of 2014/15, the Special Steel Division opened its third site in Mexico, a sales company in Puebla, which will primarily meet the demands of the automotive industry that continues to grow.

In the business year 2014/15, the Metal Engineering Division optimized the liquid phase by modernizing a ladle furnace and renovating both converters at the Donawitz, Austria, site, thus creating important prerequisites to be able to supply its own processing sectors with high-quality pre-material in the future as well. As part of its effort to differentiate itself even more from the competition as far as quality is concerned, the Wire business segment is building a completely new, state-of-the-art wire rod mill (including a walking beam furnace) at the same site in order to be able to provide its customers with even better service than before in the segment of rolled cold heading and bearing wire. The facility will begin production in the early part of the 2016 calendar year. The Rail business segment in this division will also be getting a new walking beam furnace in order to enable it to implement the production of new rail grades in a technologically optimal way.

In the Automotive Body Parts business segment, the Metal Forming Division invested in the construction of new "phs" lines at the sites in Schmölln and Schwäbisch Gmünd, Germany, in order to provide its automotive customers even more comprehensively with components made of press-hardening ultra high-strength steel based on new technology. Furthermore, as of the beginning of the business year under review, additional new production sites for sophisticated body-in-white components went live; they are situated in the proximity of famed automobile manufacturers in the USA, South Africa, and China. The sites in the USA and China will continue to be upgraded and expanded as far as technology is concerned in the coming years. With the new "phs" facilities in Germany that were powered up in the third quarter, there are now six such facilities in operation as of the end of the business year. In the Tubes & Sections business segment, the run-up phase began at a new plant in Suzhou, China, at the beginning of the business year; it specializes in the production of special sections for the construction machinery and agricultural machinery industries.

Acquisitions / Divestments

There were three acquisitions in the business year 2014/15: by the Wire business segment of the Metal Engineering Division, by the Turnout Systems business segment, and by the Rail Technology business segment.

The third quarter saw the 100% takeover of the leading Italian manufacturer of special wire Trafilerie Industriali S.p.A. The company, which is headquartered in Nervesa della Battaglia, Italy, specializes in the production of drawn wire. It has 80 employees and in 2013, it generated revenue of EUR 43.8 million with a production volume of around 50,000 tons of special wire. With this acquisition, voestalpine Wire Technology GmbH is expanding its product range of both drawn and blank wire, is broadening the value chain in the premium quality segment for the automotive industry even further, and is also strengthening its market position in Italy.

The fourth quarter of the business year saw the takeover of the Australian company Bathurst Rail Fabrication Centre (BRFC) in Bathurst, which enables the Turnout Systems business segment to expand its already leading market position down under. The specialist for high quality, welded rails, turnouts, and track components has around 47 employees; in the most recent business year, the company generated an annual revenue of around EUR 34 million. By acquiring BRFC, which is one of the five largest railway system providers in Australia, the Turnout Systems business segment has expanded its Australian product and customer portfolio relative to the passenger and mass transit sectors and, at the same time, it is enhancing its position in the heavy-haul sector that is particularly important.

As far as divestments are concerned, the business year 2014/15 saw a significant streamlining of the Metal Forming Division's portfolio. The first divestment took place in the second quarter with the sale of the Flamco Group to the Dutch industrial company Aalberts Industries N.V. The main reason for the sale was the lack of synergies within the Metal Forming Division; a secondary reason was the Flamco Group's increasing deviation from the voestalpine Group's strategic core business. The Flamco Group develops and produces high-quality components for heating and drinking water installations and sells them worldwide. It has just over 700 employees and most recently, it generated annual revenue of around EUR 125 million.

In the third quarter, the Metal Forming Division sold two companies in the Automotive Body Parts business segment, namely, voestalpine Polynorm Van Niftrik B.V. and voestalpine Polynorm Plastics B.V. (jointly "voestalpine Plastics Solutions"). This sale was also part of the division's strategic portfolio streamlining. The primary reason for the sale to the Austrian Polytec Group was the fact that the activities of voestalpine Plastics Solutions no longer represented a core segment of the strategy that the Group is consistently implementing. The two Dutch Group companies, which have around 700 employees, jointly generated revenue of around EUR 120 million in the business year 2013/14. They supply their customers, especially European OEMs, with underbody paneling, acoustic, and exterior components made of plastics.

Employees

As of March 31, 2015, the voestalpine Group had 43,164 employees (excl. apprentices and temporary employees). This corresponds to an decrease of 106 persons (−0.2%) compared to the headcount on March 31, 2014. In addition, there are 1,407 apprentices and 3,879 leased employees, which adds up to a total of 47,418 FTEs (full-time equivalents). This represents an overall decline in headcount compared to the previous year of 0.1% (−67 FTEs).
The number of temporary employees rose in a year-to-year comparison by 4.1% or 151 employees.
Due to the increasing internationalization of the company in recent years, 52.4% of voestalpine's core employees (22,639 persons) are now employed at international Group sites, i.e., outside of Austria in Europe and overseas.
As of the end of the business year, the voestalpine Group was training 1,407 apprentices (64.6% of whom were being trained at Austrian companies and 35.4% at international sites). At plus two, the number of apprentices remained practically unchanged compared to the previous year.

Employee shareholding scheme

Currently, all employees in Austria and Group employees in Great Britain, Germany, the Netherlands, Poland, Belgium, the Czech Republic, and Italy are integrated into the employee shareholding scheme, which has been gradually expanded ever since its launch in 2001. The circle of employees from international Group companies participating in this model was again widened in the business year 2014/15. Concurrently, the stake of the Austrian Group employees was increased by around 1.2% within the scope of the collective bargaining negotiations in the fall of 2014, which will become effective as of the beginning of the business year 2015/16.
As of March 31, 2015, a total of 23,600 employees have a stake in voestalpine AG through the voestalpine Mitarbeiterbeteiligung Privatstiftung; they hold about 21.6 million shares, which represent 12.5% of the company's share capital (previous year: 13.0%) due to the general bundling of voting rights. Thus, the Mitarbeiterstiftung is one of the largest core shareholders of voestalpine AG. About 1.9 million "private shares" owned by current and former employees (this corresponds to an additional 1.1% of the voting shares) are also managed by the voestalpine Mitarbeiterbeteiligung Privatstiftung. Thus, as of March 31, 2015, 13.6% of voestalpine AG's share capital (previous year: 14.0%) is 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 as well as employees from a number of companies outside the Group 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 2014/15, more than 83% of the participants who were looking for work were able to find a new job with the help of the Stahlstiftung despite the difficult situation on the labor market. As of the end of the business year, a total of 427 persons were being assisted by the Stahlstiftung, of whom 62.1% were participants from companies not belonging to the voestalpine Group. The total number of Stahlstiftung active members in the business year 2014/15 was 730, 6.0% below the previous year's figure (777 persons).

Focus of HR activities

Fairs

The voestalpine Group was represented at a number of career fairs in the past business year. The focus was on recruiting graduates of technical and scientific programs. voestalpine teams from technology fields and HR introduced the Group not only at the International Student's Day of Metallurgy in Clausthal, Germany, but also at national student fairs throughout Austria and Germany as an attractive employer for entry-level employees. For the first time, voestalpine had a presence at Chinese Talent Days in Cologne, a German-Chinese career fair, and at the Georgia Tech Career Fair in Atlanta, Georgia, in the USA.

At the same time, the international roll-out of the Group's uniform job application management system continued. Besides Group companies in Austria and Germany, now those in Sweden, the Netherlands, the USA, and Canada are also using this system.

Apprentices and young skilled workers

In 2014, voestalpine received a gold medal and the award "Best of Europe" (the best of all participants) at "EuroSkills," the largest European skills competition, which took place in Lille, France, on behalf of Oliver Anibas, a young skilled worker trained in Linz. By winning at the Austrian state championships, three young skilled workers qualified for the "WorldSkills 2015" competition in Sao Paulo, Brazil.

These successes confirm the high quality of the training in the voestalpine Group. The company invests about EUR 70,000 into the comprehensive and very practice-oriented training per apprentice.

The voestalpine online channels (apprentice website, Facebook, and Instagram) are being used increasingly by the young apprentices.

On November 4, 2014, 340 apprentices from Austria and Germany met at the Group's main site in Linz for the second voestalpine Group Apprentice Day; in addition to being able to meet and network with their colleagues, the apprentices also had the opportunity to direct questions to the Management Board during a panel discussion.

Development of executives

In the business year 2014/15, 199 participants from 24 countries took part in the "value:program," the Group-wide management training and development program. Almost half of the participants were from international Group companies.

Raw materials

At the beginning of the business year 2014/15, expectations were that the price trend for iron ore would be recessive, but the experts assumed that the price for one ton of fine ore (CFR China) would level off at about USD 100. In reality, the downward spiral of the price for iron ore continued throughout the entire business year 2014/15 and de facto fell within one year from just over USD 110 USD by around half to USD 60 as of the end of March 2015. While in the two previous years the trend had been reversed in the summer or early fall with prices moving back up, this did not occur in this case. The reasons for the marked decline are numerous and range from massive expansion in the size of existing mines—actually smaller than originally planned due to the lower growth forecasts for steel production in China—to the significantly reduced cost basis of many mining companies. The lower production costs (based on the US dollar) are largely due to lower transport and energy-specific mining costs resulting from the collapse of the oil price, but also because of the weakening of the currencies in Brazil and Australia—the countries that produce around half of the global iron ore supply—vis-à-vis the US dollar.

In contrast, the price trend for coking coal was largely stable during the entire business year 2014/15. On the average, the price on the spot market (FOB Australia) stayed around USD 110 for a ton of coking coal and did not fall below USD 100 until the end of the business year. In contrast to iron ore, the price decline of coking coal began as early as the beginning of the 2011 calendar year and continued until the end of the business year 2013/14. Thus, the price of coking coal fell by more than two thirds within four years. The reasons for this development are, on one hand, additional supply of coal, especially from Mongolia, which is used primarily by Chinese steel manufacturers and, on the other, the fact that, viewed globally, there have not been any major production losses since the flooding in Australia in early 2011.

Procurement costs for coke have declined by a similar range as those for coking coal in recent years; at the beginning of the business year 2014/15, they were at around USD 200 (FOB China) per ton. During the business year 2014/15, they ranged between USD 175 and 200; as of the end of March 2015, they had slipped slightly below this range to around USD 165. In the past few years, the price differential between the base product coking coal and coke had already fallen to around USD 100, but in this business year, the added value for refining coke has again dropped considerably.

The fact that the price curve for scrap does not necessarily follow the price of iron ore was demonstrated particularly in the first half of the business year 2014/15. While the price for the iron ore used in the blast furnaces continued to drop during this period of time, fluctuations in the price for scrap were barely noticeable. The downward trend did not begin until the second half of the business year, resulting in a price of around USD 300 per ton (CFR Turkey) as of the end of March 2015.

Although the past business year saw increasing political tensions in those countries that supply not insignificant amounts of raw materials to voestalpine, there were never any bottlenecks in the supply of ore, coal, coke, or scrap. But it was obvious once again that the Group's long-term raw materials strategy that relies on a diversified and broad basis of supply sources in order to avoid dependence on individual suppliers or supplier countries is just as important as ever. Fundamental problems with regard to the general availability of raw materials are not anticipated for the business year 2015/16.

Research and development

In the business year 2014/15, research and development expenditure by the voestalpine Group was slightly reduced by 1.3% to EUR 126.7 million compared to the previous business year (EUR 128.4 million). In a year-over-year comparison, the research ratio (proportion of R&D expenditures in relation to revenue) decreased from 1.2% to 1.1%; the R&D coefficient (funds measured in terms of value creation) went down from 2.9% to 2.8%.

These investments in the company's future found wide recognition among voestalpine's international peers. They are also being rewarded. For example, voestalpine was recently awarded the Austrian National Prize for Innovation 2015 by the Federal Minister for Science, Research and Economy for the new ultra high-tensile strength steel phs-ultraform. As a result of pressure on the automobile industry to drive lightweight construction forward and the desire for increased safety, use of press-hardened components in body-in-white production has risen enormously. These parts are used in the automobile industry for safety-relevant structural components and body components used for the passenger compartment as well as in areas that are susceptible to corrosion. With the development of the "direct process" for the forming process of press-hardened steel, simple components can now be manufactured very cost-effectively. The first such facility is currently being built.

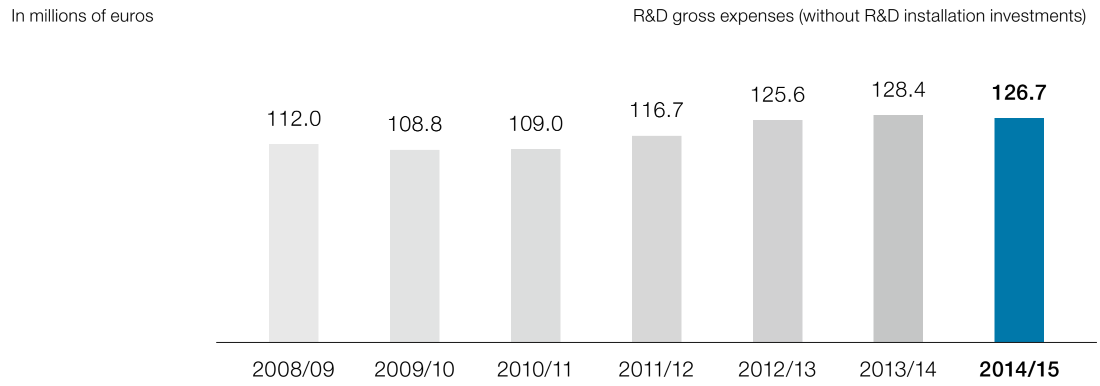
In the long term, research and development at voestalpine is oriented toward generating innovative complete solutions with the goal of achieving both maximum benefit for the customer and reduced life cycle costs.

Within the scope of the Group project "KW50+," know-how and process development for the production of components made of new materials for low-carbon steam power plants are being advanced across multiple divisions. In this context, a new highly temperature-resistant casting material has already been successfully introduced on the market, and the welding process qualification has also already been completed. The pilot production of components made of nickel-based alloys as well as development of processes for seam welding of dissimilar metals (nickel-based alloys with steel) have been successful.

In another Group project, the value chain from tool steel to tool user was critically examined. As the Group has all of the expertise necessary for such an analysis, such as production of tool steel, heat treatment, and coating, but also has tool manufacturers and tool users in the Group, new fundamental insights can be gained that result in significantly improved productivity. The topic "Tools/dies and tool/die materials," in other words, tools and forming tools and the materials necessary for the process, was the title of this year's eighth annual R&D Synergy Platform, which was organized by the Group in Kapfenberg, Styria. Lectures by experts from all the divisions provided an excellent overview of the Group's position; lectures by external speakers brought additional input and fresh aspects.

In accordance with its decentralized R&D strategies, the Special Steel Division is conducting research at production sites in Austria, Germany, Sweden, and Brazil; the focal points are further development of high-performance tool steel and the development of special materials for the oil and natural gas industries, energy production, and the aviation industry. In addition to pure materials development, the current R&D portfolio in this sector also comprises the development of processing technologies and new products for the

Research expenses for the voestalpine Group



aviation industry as well as new projects concerning the hard coating of tools, including the coating facilities needed for these processes.

Another research project in the Steel Division was put into actual practice under the name "Möllerradar" (batch radar) and the measuring equipment was installed on a blast furnace at the Linz site. It maps the topography of and the temperature distribution on the batch surface during production in real time; this enables optimized process management, which in turn results in reduced consumption of reducing agents in the blast furnace process.
DOBAIN®, the tear-resistant bainitic brand of rail steel, a trend-setting product by the Metal Engineering Division, continues to be tested throughout Europe on various test tracks. Due to its outstanding cold resistance, it offers additional safety when used at extremely low temperatures. The newly developed type of rail steel for the tram segment with superior welding and wear properties has found acceptance on the market and is proving to be highly effective.
voestalpine is participating in numerous research projects and is cooperating with various competence centers. Under "HORIZON 2020," the new EU Framework Program for Innovation and Research, voestalpine is participating in the "SPIRE" and S2R programs. "SPIRE" stands for "Sustainable Process Industry through Resource and Energy Efficiency" and is an initiative of energy-intensive industries whose common goal is to develop new, cross-sector energy and resource-efficient solutions. S2R (Shift to Rail) has the objective of increasingly shifting transport volume to railroads; both voestalpine Schienen GmbH and the Turnout Systems business segment are

participating in this project as part of VVAC (Virtual Vehicle Austria Consortium) with new and improved products.

In the Austrian COMET research program, for example, voestalpine is involved with ten different competence centers and projects on various priority issues. The collaboration with competence centers significantly supports voestalpine research and development, as it is possible to implement research results in practical applications on an ongoing basis. Within the scope of the third tender of the Austrian Research Funding Program, voestalpine is a key participant at two competence centers, CEST (Center of Competence in Electrochemical Surface Technology) and K1-MET (Competence Center for Excellent Technologies in Advanced Metallurgical and Environmental Process Development). The term for the projects is eight years in both cases (with a "stop-or-go" evaluation in the fourth year).
An endowed professorship to be set up in Austria on the topic of "Steel, a high-performance material," which was suggested by voestalpine, was put out to tender by the Austrian Federal Ministry for Transport, Innovation and Technology as a measure to support areas of knowledge that are important for Austria as a location for innovation. The winning bid was made by the Leoben University of Mining and Metallurgy with its idea of a professorship for "Steel design."

Environment

Environmental expenditures

The environmental expenditures of the voestalpine Group in the business year 2014/15 amounted to EUR 43 million, an increase of around 90% compared to the previous business year (EUR 23 million). Ongoing operating expenses for environmental systems came to EUR 222 million[1], a rise of 2% (EUR 218 million) compared to the previous year's figure.

Environmental projects in the past business year

The focus of environmental projects in the past business year was on the areas of air purification, water management, energy efficiency, noise reduction, and waste and recycling management. In the following are some examples that represent the large number of measures that were implemented:

In the Steel Division at the Linz site, a new fabric filter system in the indoor dedusting system of the sintering plant was able to significantly reduce diffuse emissions; the new slab scarfing machine in the steelworks had a similarly positive effect by enabling an optimization in capturing diffuse dust emissions by way of higher suction power.

In the Metal Forming Division at voestalpine Precision Strip GmbH at the Böhlerwerk site in Austria grinding dust is no longer disposed of but is pressed into briquettes using a grinding dust press; these briquettes can be recycled as they have a high iron content. In the Special Steel Division, a new dust extraction system in the steelworks area of Buderus Edelstahl GmbH in Wetzlar, Germany, was put into operation, which enables both significantly reduced emissions and lower specific energy requirements. At Uddeholms AB in Hagfors, Sweden, gas (LNG) was substituted for heavy oil, resulting in substantial energy savings and an enormous reduction of NO_X, SO_X, and CO_2. In the Metal Engineering Division at voestalpine Böhler Welding in Kapfenberg, Austria, a new extraction system was installed to enable more efficient cleaning of dust-laden air from wire production; during the winter, filtered exhaust air is routed back into the production hall as an additional source of heat.

Environmental management

In the last business year, implementation of additional environmental management systems began. These systems include the energy management system based on EN ISO 50001 at voestalpine Böhler Welding Group GmbH Düsseldorf, Germany, and the ISO 14001 certification of voestalpine Sadef N.V. in Hooglede, Belgium. As had been the case in previous years, in 2014/15 various Group companies in a number of countries were honored with awards recognizing their environmental management measures. voestalpine VAE GmbH, voestalpine Weichensysteme GmbH, and voestalpine SIGNALING Zeltweg GmbH, all in Zeltweg, Austria, received the European EMAS Award 2014 for "eco-innovations (products and services)," "environmental measures," and "international health, safety, environ-

[1] Basis: Austrian Group locations as it is here that the greatest portion of the Group's environmentally sensitive emissions accrue.

ment & energy-related (HSEE) standards" at 40 production sites worldwide. Villares Metals S.A in Sumaré, Brazil, received the CIP Award 2014/15 in the "Environment" category for the project "Increasing treated water storage for industrial reuse." voestalpine Roll Forming Corporation in Shelbyville, Kentucky was awarded the "Certificate of Environmental Recognition from Closed Loop Recycling." voestalpine Tubulars GmbH & Co KG, Kindberg, Austria, received the ÖKOPROFIT Club Award as well as an award for competence in climate protection (energy efficiency) within the scope of the Austrian klima:aktiv initiative.

Current environmental policy topics

The most important current topic in terms of environmental policy is preparation of the EU position for the 21st UN Climate Change Conference in Paris in December 2015, the goal of which is to achieve a binding global climate protection treaty for the period after 2020.
In the spring of 2015, the European Environment Agency presented its most recent report on the state of the environment, and its conclusions are being discussed. Another current area of focus is the energy sector, where the current Latvian presidency of the European Council is endeavoring to create a concept for the proposed European energy union.

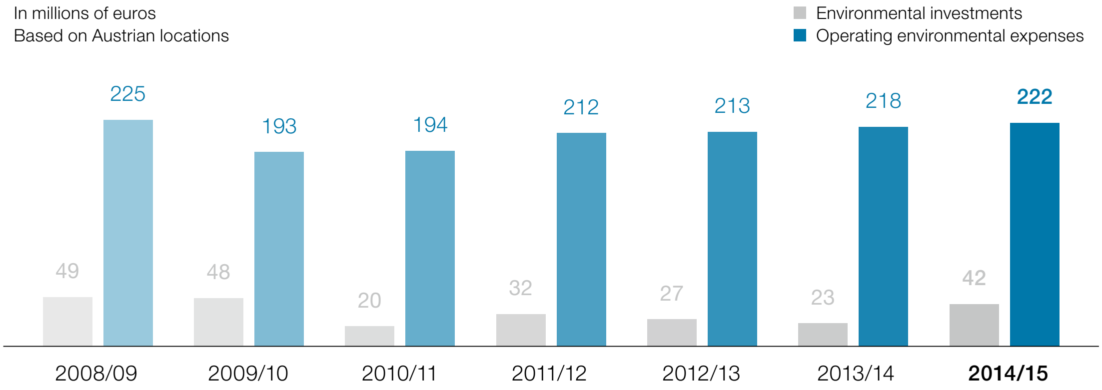
Climate and energy policy

After the European Council summit in October 2014, for the energy-intensive industries, it is important that the prospective decisions by the heads of state and government of the EU member states be defined as quickly as possible so that there is certainty concerning the regulatory framework that will make reliable planning for industrial capital investments possible.
The European Council has resolved a binding target value for a reduction of the EU's CO_2 emissions of –40% based on the emissions level in 1990. This future "2030 climate target" was determined as a part of a political framework that comprises the aspects of greenhouse gases, renewable energy, and energy efficiency. At the present time, it appears that the EU—regardless of any global treaties—plans on adhering to these quantitative "2030 targets" and on introducing mechanisms that increase the CO_2 price (currently around EUR 7/ton of CO_2) to a targeted magnitude of EUR 20 to EUR 40/ton. This would result in yet another blatant disadvantage for the energy-intensive manufacturing industries not only vis-à-vis the energy sector but especially vis-à-vis overseas competitors and thus contradict the declarations of intent by the Council stating the desire to ensure the competitiveness of these industries in Europe in the long term.
These plans overlook the fact that the result of a high CO_2 price is not necessarily to bolster investment in low-carbon production technologies because carbon pricing can usually only be avoided to a limited degree even through expensive, more emission-friendly alternative technologies, as it does not just apply to coal or oil, but it also applies to other energy sources such as natural gas and electricity, albeit indirectly by way of being "passed on" to industry.
In order to permanently prevent carbon leakage under the EU Trading Scheme (ETS) for European industry and thus create certainty regarding investments/capital expenditures, it is absolutely necessary—in accordance with the conclusions of the European Council—to separate the energy industry and the manufacturing industry with regard to their cost burden from carbon pricing. In this context, the primary issue is to ensure a 100% allocation of free certificates for the most efficient plants based on technically possible benchmark figures and actual production levels. If this is not the case, the future of energy-intensive industry in Europe is a priori called into question.

Current status of the negotiations on the "Energy Climate Package 2030"

Currently, the introduction of a "market stability reserve" (MSR) to the system of European emissions trading is being discussed. The goal is to transfer CO_2 certificates from the trading system to a so-called "reserve" in order to push the CO_2 price higher. After the environmental committee of the European Parliament defined its position in February 2015, recently, agreement was also reached at the working level of the Council. This agreement stipulates that the MSR will be implemented from 2019 on, that so-called backloaded allowances will be directly transferred to the MSR, and that unallocated certificates will be considered separately by the Commission when the ETS Directive is revised. Further informal talks between Council, European Parliament, and Commission began on March 30, 2015. These negotiations have particular importance for the steel industry because in this context the topic of carbon leakage will also be discussed.

Environmental expenditures[1]



[1] Basis: Austrian Group locations as it is here that the greatest portion of the Group's environmentally sensitive emissions accrue.

Report on company risk exposure

Since the business year 2000/01, the voestalpine Group has had a comprehensive risk management system in place 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 has been 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 Audit department independently monitors operational and business processes and the ICS and 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 ("identify and analyze, assess, manage, document, and monitor") that is run at least once a year uniformly across the entire Group. The evaluation of identified risks is implemented using an evaluation matrix comprising nine fields 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 minimizes the risks. Long-term relationships with suppliers, the expansion of the Group's supplier portfolio, and the development of its 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 EBIT. Based on the acquired information and taking the individual distinctive characteristics of each raw material into consideration, price risks for the raw materials are hedged by executing delivery contracts containing fixed price agreements or by utilizing derivative financial instruments. An internal guideline defines objectives, principles, and responsibilities, in addition to methodology, processes, and decision-making processes, for how raw materials risks are handled.

CO_2 issues

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

Failure of IT systems

At the majority of the Group's sites, business and production processes that are largely based on complex IT systems are serviced by voestalpine group-IT GmbH, a company that specializes in IT and that is wholly owned by the Group holding company voestalpine AG. Due to the importance of IT security and in order to minimize possible IT breakdown and security risks, minimum security standards for IT have been developed, 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. In the past business year, an online campaign was conducted to raise employees' awareness with regard to issues relating to IT security.

Failure of production facilities

In order to minimize the risk of breakdowns of critical facilities, ongoing targeted and comprehensive investments have been made in the technical optimization of sensitive units. Consistent preventive maintenance, risk-oriented storage of spare parts, and comprehensive employee training are additional measures that are being taken.

Knowledge management

In order to sustainably secure knowledge and especially to prevent the loss of know-how; sophisticated projects have already been initiated, and they 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 powers, 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 raise the funds necessary to meet its financial obligations. Existing liquidity reserves enable the company to meet its obligations within the prescribed period. 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 prior experience during the crises in recent years—is considered to be low. A high percentage of delivery transactions is covered by credit insurance. As of March 31, 2015, 78% of voestalpine's 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) of the Group's counterparties.

Currency risk

The Group implements hedges centrally by means of derivative hedging instruments through the Group Treasury. 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

voestalpine AG conducts the interest rate risk assessment centrally for the entire Group. This assessment specifically manages cash flow risk (the risk that interest expenses or interest income will undergo an adverse change). As of the reporting date of March 31, 2015, an increase of the interest rate by 1% will result in an increase of the net interest expense amounting to EUR 2.95 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 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.

Uncertainties stemming from legislation

Goodwill amortization under Austrian tax law

With its decision of January 30, 2014, the Higher Administrative Court *(Verwaltungsgerichtshof)* directed a request for a preliminary ruling to the ECJ (Higher Administrative Court 30/1/2014, EU 2014/0001-1 (2013/15/0186)). Among other issues, this request contained the question of whether, when acquiring a domestic equity interest, goodwill amortization constitutes State aid within the framework of group taxation in Austria as defined by Art. 107 (1) of the Treaty on the Functioning of the European Union [TFEU]. The result of the ECJ preliminary ruling proceeding is still open. If goodwill amortization qualifies as "State aid," a reversal could become necessary for a period of up to ten years from the date of granting of State aid. A reversal of the prior tax abatement effect amounting to EUR 194 million and a reversal of deferred tax assets amounting to EUR 108.4 million depends on the result of the preliminary ruling proceeding. At this time, the risk of a reversal is viewed as unlikely.

Energy tax rebate in Austria

With regard to the Austrian energy tax rebate, the Federal Tax Court *(Bundesfinanzgericht)* has submitted a request for a preliminary ruling to the ECJ (Federal Tax Court 10/31/2014, RE/5100001/2014). As a result of the amendment of the Energy Tax Rebate Act *(Energieabgabenvergütungsgesetz)* with the Budget Accompanying Act 2011 *(Budgetbegleitgesetz)*, which applies to periods after December 31, 2010, the energy tax rebate was restricted to manufacturing companies. The questions submitted concern the violation of obligations under the General Block Exemption Regulation *(Allgemeine Gruppenfreistellungsverordnung, AGVO)*, absent environmental protection measures in the rebate regulation, and the absent temporal restriction of the exemption. If the energy tax rebate is qualified as "State aid," a reversal could become necessary for periods after December 31, 2010. At this time, the risk of a reversal is viewed as unlikely.

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 were consistently implemented in the past business year and will continue to be implemented in the coming years. These measures 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 even more efficiently than before with a view to continuing the long-term expansion of the Group's quality and technology leadership

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 as a going concern. 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. 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, reports about critical authorizations and authorization conflicts will be generated automatically.
In preparing the consolidated financial statements, the data for fully consolidated entities is transferred to the unified Group consolidation and reporting system.
The unified Group accounting policies for recording, posting, and recognition of commercial transactions are regulated in the voestalpine consolidated financial statements handbook and are binding for all Group companies 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 controlling handbook of voestalpine AG.
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 on capital, share, voting, and control rights and associated obligations

As of March 31, 2015, 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 6 members representing employees and 6 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 2014/15.

The hybrid bond issued in March 2013 with a volume of EUR 500.0 million, EUR 500.0 million fixed-interest securities 2011–2018, EUR 500.0 million fixed-interest securities 2012–2018, EUR 400.0 million fixed-interest securities 2014–2021, the promissory note loan that was issued in the fall of 2008 and partly extended in November 2012 and in October 2014 in the amount of currently EUR 46.5 million, the promissory note loan that was issued in May 2012 and partly extended and/or increased in October 2014 in the amount of EUR 435.5 million, the promissory note loan that was issued in July 2014 in the amount of EUR 221.0 million and USD 100.0 million, and the syndicated loan executed in March 2015 in the amount of EUR 900.0 million (used for general corporate purposes and to refinance syndicated loan 2011; of which EUR 600.0 million as a revolving credit facility to ensure liquidity), the EUR 250.0 million loan granted by the European Investment Bank and bilateral loan agreements amount to approximately EUR 336.0 million contain so-called change-of-control clauses. With the exception of the hybrid bonds, 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 bond 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

Looking back at the past business year 2014/15, it must be stated that the expectations at the beginning of the year, namely, a transition of the global economic trend from its crisis mode, which has now lasted for five years, to a broad-based upwards trend have once again not been fulfilled. Apart from the USA and Mexico, a few countries in Southeast Asia, and individual European countries, reality ultimately fell far short of the original hopeful predictions, just as it had in previous years.

Basically, the assessment of the development from voestalpine's perspective exactly one year ago came quite close to the truth. "Despite this improved economic environment, it would be premature to speak of a broad-based global trend reversal. However, it might be possible to create those prerequisites in 2014 to enable a more significant upward trend of the global economy than has been the case in recent years."

Even with everything that has occurred in the past year—the decline of the oil price, significant shifts in the rates of exchange of major currencies, continuing escalation of the Russia-Ukraine conflict, and the spread of strife in a number of Middle Eastern countries—all of which does not exactly promote a reduction of economic tensions at the international level—the overall economic trend should at least continue to stabilize in 2015. For the first time in a number of years, a positive contribution by Europe can be anticipated, as the stabilization of the budgets in several EU—particularly Southern European—member states and fiscal stimulus measures by the EU Commission and the European Central Bank are resulting in economic revitalization effects. The anticipated growth of the Indian economy should furthermore bring a positive momentum to the global economy as well. In North America, the economic situation in Mexico in particular continues to be encouraging. In the USA, however, the strong upward trend of the past two years is expected to lose some of its momentum in the course of the year. The situation in China is characterized by the challenging transition from an economy that is dominated by state investment and intervention to a consumption-driven economy. Nevertheless, China should again achieve growth of around 7% in 2015, albeit increasingly in more sophisticated economic segments than in the past as it shifts away from commodity capitalism. In most of the economies in Southeast Asia, the development in 2015 should continue to be positive. In Brazil, on the other hand, the situation is critical and there is reason to fear that it will take longer than the next six—or even twelve—months to find solutions to its homemade problems. It is difficult to predict the future of the Russia-Ukraine conflict. However, regardless of how it develops, the global economic effects of this conflict will continue to be more or less moderate.

The most important customer industries are sending very different signals for the second half of 2015 with regard to indications of future demand. Continuing very strong global development—most recently including Europe as well—in the automotive industry is contrasted by the energy sector that is marked by considerable uncertainty. However, the sharp decline of prices of raw materials in the past months, especially of oil, has shifted to a phase of consolidation so that this should mean a certain market stability for the rest of 2015. The situation in the alternative energy sector is largely stable and continues to have a favorable outlook. However, the conventional energy production sector has fewer and fewer future prospects as a result of the energy transition or energy paradigm shift so that it is definitively facing massive structural changes—not just in Europe. The situation of the construction and construction supply industries is currently characterized by differences that vary sharply from region to region. While this industrial sector is expected to continue to recover in Europe—assisted by both national and EU-wide incentive programs—the last uptrend seems to have already peaked not only in China, but in the USA as well, and the classic signs of a bubble are again increasing. The development of the consumer goods, white goods, and electrical industries is largely unremarkable, while the mechanical engineering sector has shown growing momentum in recent months, especially in Germany, after going through a mostly weaker phase in the past year. The aviation sector continues to be fueled by strong demand in 2015, and the development in the railway infrastructure sector also remains solid, driven primarily by a broad-based revival of demand in Europe, a market in North America that continues to be strong, and a railway infrastructure sector in China that is still expanding.

Against this economic backdrop, it is expected that both the Steel and Special Steel Divisions of the voestalpine Group will see full capacity utilization and stable or somewhat rising prices due to their focus on high quality, sophisticated steel grades based on state-of-the-art technology, and the cost-cutting and efficiency improvement programs that have been implemented. From today's vantage point, this development should continue beyond the first half of the business year as long as the situation in the current political trouble spots does not escalate and new hotspots do not materialize. It should be possible for both divisions to largely compensate the difficult situation in the oil and natural gas sector, both with regard to demand and price, by way of other projects. The Metal Engineering Division's activities relating to oil field pipes will probably be more severely impacted by this situation in the next months because, as of the beginning of the new business year, significant contractual agreements with the US joint venture partner are being fundamentally revised and there will be a shift from at equity consolidation to full consolidation. The impact of this weakening in the oil and natural gas sector on the division's earnings should remain quite manageable as the traditionally high degree of stability of its other business segments, both with regard to volumes and prices, is not expected to change in the new business year. The Metal Forming Division, which does business primarily with the automotive industry, should profit from the continuing strong development of this sector in the course of the year, especially because the numerous plants being put into operation at new, international locations will provide additional support and security as a result of the favorable economic situation.

Against this backdrop, in the business year 2015/16, the voestalpine Group should be able to not only defend the leading position it has acquired in the past years in technology and quality as well as efficiency and earnings vis-à-vis its competitors but expand it. The new investments undertaken in recent years at a number of sites in all divisions that are now beginning to bear fruit and the continued consistent implementation of the EUR 900-million program to optimize earnings will do their part to support this development. Furthermore, the uncompromising implementation of the downstream strategy, which has been pursued by the Group for 15 years, is leading toward the definitive departure from the classic earnings mechanisms of the steel industry in favor of both higher and more stable margins in sophisticated industrial sectors. Based on the current economic situation, it can be anticipated that in the business year 2015/16, the voestalpine Group will record further improvement compared to the business year just ended in both operating result (EBITDA) and profit from operations (EBIT), before any non-recurring effects and changes in the scope of consolidation.

Linz, May 22, 2015

The Management Board

Wolfgang Eder　　Herbert Eibensteiner　　Franz Kainersdorfer

Robert Ottel　　Franz Rotter　　Peter Schwab