

Report of the Management Board

Management Report 2013/14

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

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

Over long stretches of the business year 2013/14, it was affected by the recession in Europe that hung on until the summer of 2013, by the fact that recovery in the USA was endangered by the budget and debt ceiling debates, and the surprisingly cautious development of the emerging markets. All in all, the past twelve months saw a rather challenging market environment. It was also a significant aspect that expectations and actual developments often diverged significantly. While expectations were already positive in the early part of the year, they were not confirmed by actual developments until late in the year. Positive news from individual market segments and economic regions and early indicators of economic growth created a positive momentum in the last quarter of the business year 2013/14 as well as commensurate expectations for the new business year.

Europe

Despite burgeoning optimism, the economy in Europe in 2013 was ultimately characterized by stagnation of the gross national product. In a year-to-year comparison, investment activity was down as was industrial production (-0.5%); it was not until the early part of 2014 that a slightly upward trend became noticeable in this sector.

The key to leaving the recession was once again exports. Here, it was the most important sector for voestalpine, the automobile industry—primarily its premium segment—that continued to perform strongly throughout the entire business year

2013/14. With the "volume segment" also returning to a trajectory of growth during the second half of the year, the automobile industry began to hint at its former strength.

Although the early indicators for EU consumer confidence made it reasonable to expect growth in the past business year, a truly significant revival of demand did not occur. The European construction industry still did not demonstrate any noticeable trend toward recovery in 2013/14. If one observes the development in the European economic region during the business year 2013/14 in detail, it becomes evident that the extreme differences in economic performance between Central Europe and Europe's periphery have begun to dissipate. The main factor is the gradual beginning of a recovery in the peripheral nations—primarily in Southern Europe—where reforms, many of which have been painful, are slowly being translated into improved competitiveness and are showing a positive effect.

North America

The economic mood in North America had already begun to lighten in the early part of the business year 2013/14, however, it took some months before improving sentiment was translated into increased demand. In the fall of 2013, however, there was a "government shutdown" in the USA due to massive political conflicts associated with the financing of the budget, and this again created uncertainty and volatility in the markets. However, once there was political agreement about the federal budget for the next two years, doubts about further negative implications were dispelled relatively quickly. Subsequently, the upward trend stabilized so that the US Federal

Reserve announced a possible tapering process (reduction of purchases by the Fed of Treasury bonds and mortgage-backed securities, which had been undertaken as an emergency measure during the financial crisis), a step that emphasizes the newly won stability of the economic uptrend in North America. The positive development was somewhat subdued by the extremely severe winter weather so that GDP fell in the first calendar quarter of 2014 (= fourth quarter of the business year 2013/14 of voestalpine AG) to 2.6%. All of the early macro indicators show positive tendencies for the remainder of the year. Among other factors, US consumer confidence rose in March 2014 to a new six-year high.

For voestalpine, this gratifying development in the USA means positive impulses for several of the Group's business segments that are represented in North America, for example, the Rail Technology business segment and particularly, the Turnout Systems business segment. But also the energy sector, and along with it the Seamless Tube and Welding Consumables business segments, show solid demand in North America. While the US automobile market was thus far only of indirect importance for the voestalpine Group via exports by European automobile manufacturers, the opening of a plant in Cartersville, Georgia, in the spring of 2014 has now also established a direct link to the US automobile market, albeit for the time being primarily to German car manufacturers and their North American plants.

Despite the difficulties experienced by Boeing's Dreamliner project, the US aviation industry continued its excellent performance in recent years in the past business year as well.

Demand for tool steel in the United States continued to be stable at a satisfactory level, while the markets in Canada did not demonstrate any appreciable momentum.

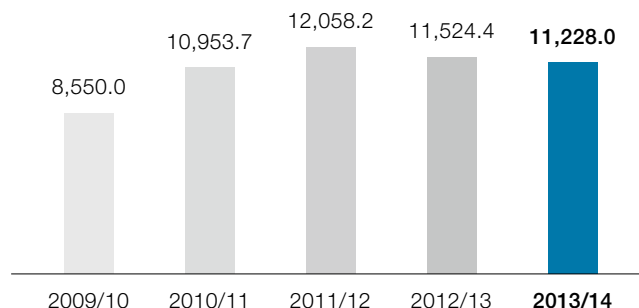
Brazil/South America

In the past business year, Brazil did not return to a phase of above average growth, which has typically characterized emerging markets, even though its GDP growth in 2013 went up to just over 2% from the very disappointing 0.9% in the previous year. The industry showed only marginal growth in 2013 of 1.2%, while at 2%, the service sector grew slightly more robustly. The strongest performance came from the agricultural machinery sector with a plus of more than 8%, a development that benefited the Metal Forming Division's special sections business segment, although other significant sales markets remained weak. In the segment of special materials for the oil and natural gas industries and in the segment of special steels for the consumer goods industry, demand over the entire last business year remained modest.

Structural deficits, triggered by weak spots in infrastructure, rising unit costs, and proliferating bureaucracy are having negative effects on the country's productivity and thus on its international competitiveness. Even a 16% devaluation of the Brazilian real vis-à-vis the US dollar in 2013 was not able to ameliorate the situation. Therefore, a return to being an export nation for this largest economy on the South American continent is not in sight in the medium term. The sole source of any positive economic activity is the domestic market; voestalpine is in an excellent position to take advantage of this factor.

Revenue of the voestalpine Group

In millions of euros



China

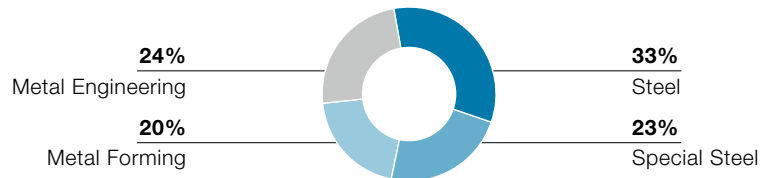
The country's goal was to defend its path of economic growth and achieve GDP growth of 7.7% in 2013. The fact that this figure, which is still quite high when compared to European standards, is nevertheless being viewed critically, is due to the quarter-to-quarter performance. Triggered by a statement by the new government that brakes would be applied to "over-invested" or overheated sectors, such as the construction industry, the first half of the business year 2013/14 saw a perceptible cooling of the country's economic development. Once the political reins were somewhat loosened in the summer of 2013 without much fuss, there was a positive turnaround. Toward the end of the business year, approval of a number of major infrastructure projects resulted in additional momentum. These include investments in railway infrastructure both in urban areas and in longer cross-country routes, which especially benefited—and continue to benefit—the Turnout Systems business segment in the Metal Engineering Division. Private consumption as well, especially demand for cars, rose sharply in the country during the last business year. This is a development that affects both European exports and, increasingly, vehicles produced in China by European manufacturers. Against this

backdrop, the Metal Forming Division is currently building two new plants for automobile components and special sections in Qinhuangdao and Suzhou.

A major factor in the voestalpine Group's overall very positive performance in China has been a rapidly growing middle class, whose consumer behavior has boosted demand for cars as well as the special steel products produced by the Special Steel Division. In a global comparison, the Asian region has been the most successful market for this segment of the voestalpine Group in the past business year. The expansion of activities resulting from the acquisition of Rieckermann Steeltech Ltd. (Shanghai) and P.M. Technology Ltd. (Shenzhen) as well as the expansion of service offerings through greenfield investments reflect the positive assessment of the long-term economic development of the Chinese economy. As, however, a number of fundamental problems have remained unsolved, such as the speculative real estate bubble, which has long been a topic of discussion, including the associated uncertainties in the Chinese banking and financial sector, and, last but not least, the disastrous pollution of the environment, one should realistically not assume an uninterrupted upwards trend in the future, despite the country's enormous potential.

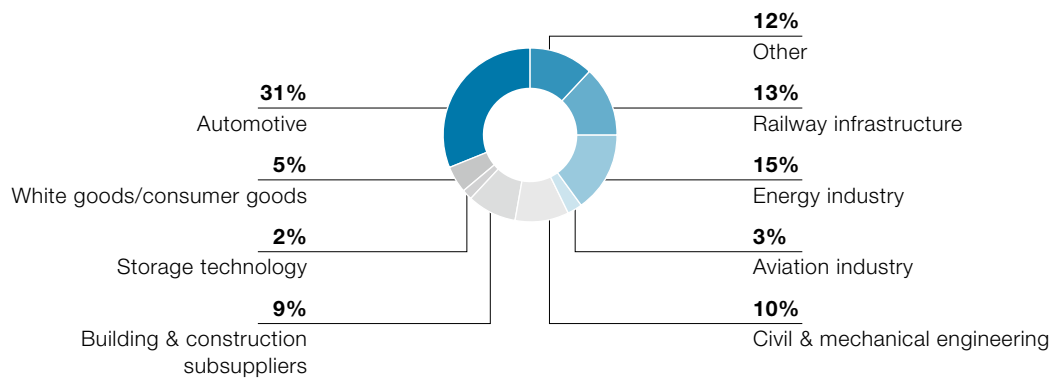
Revenue by divisions

As percentage of total divisional revenue
Business year 2013/14



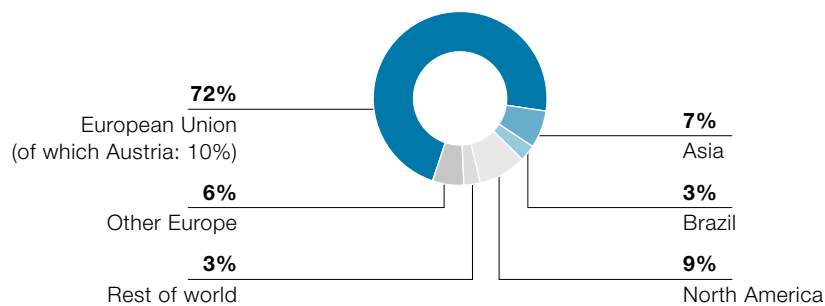
Revenue by industries

As percentage of Group revenue
Business year 2013/14



Revenue by regions

As percentage of Group revenue
Business year 2013/14



Business performance of the divisions

The overall stable development of the voestalpine Group—particularly in comparison to traditional steel companies—in the economic environment of the business year 2013/14, which has remained challenging, is due to the Company's business model. Once again, the Metal Engineering and Metal Forming Divisions, with their portfolio that is oriented toward downstream manufacturing, have ensured a high degree of consistency in business performance. Begun 15 years ago, this strategy of extending the value chain, i.e., production of entire high-tech components for defined core industries, while maintaining the highest degree of expertise in the production of steel itself, has proven its effectiveness.

In the business year 2013/14, the Metal Engineering Division was once again the best division in the Group with regard to the key figures EBITDA and EBIT margin and ROCE, which are relevant for the voestalpine Group internally. The results have already been at a stable and high level for a number of business years and the division's broad-based positioning ensures the continuation of this development. In the past business year, practically all of the division's business segments performed consistently at a high level.

In the period under review, the Metal Forming Division's markets were relatively calm, with a high demand especially for automobile parts and components. In the business year 2013/14, the special sections segment also performed largely stably; however, due to the situation in the European construction and construction supply industry that continues to be subdued, at a generally lower margin level.

The Steel and Special Steel Divisions, which are somewhat more cyclical, were more strongly affected by the intermittently difficult market environment in Europe than the downstream divisions. While the Special Steel Division was partly able to compensate for the weaknesses in Europe by means of its international business activities as a result of its global presence, the Steel Division suffered not only due to its geographic focus on Europe, with its generally difficult macroeconomic environment, but also be-

cause of the continuing structural overcapacity in the European steel industry which limits the ability to set prices, even in the top quality segment.

The European steel industry 2013/14

Global crude steel production grew in the 2013 calendar year by 4.5% to 1,578 million tons, a substantial increase after the previous year's modest gain of only 1.4%. The reason for the most recent, strong performance was again growth in the Asian region (+7.3% compared to the previous year), particularly China with a boost of 9.3%, which more than compensated the declining production figures in North America (−2.1%) and Europe (−2.2%) compared to the previous year).

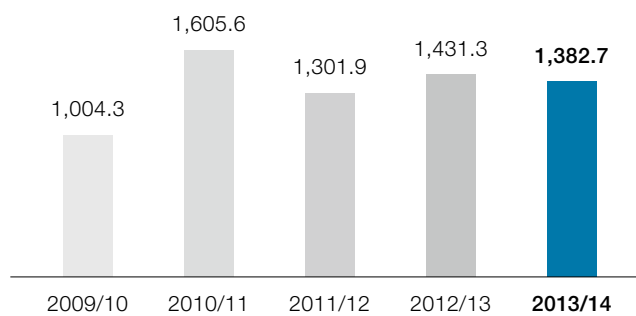
As production figures in North America had already risen in 2012, when they declined in 2013, it was from a relatively solid basis, while the decline in Europe was a continuation of the downward trend that had prevailed since 2011, with its tentative low point in the summer of 2013.

Since September 2013, a twelve-month comparison has been showing an upward trend, also in Europe, with significant acceleration toward the end of the business year 2013/14 (March 2014 +7.0% compared to March 2013). The fact that inventories are at a normal level indicates that manufactured product is being absorbed by higher demand. However, the manufacturers could not translate these positive developments in the latter part of the business year with regard to volumes into higher prices. As a result of the chronic overcapacity in Europe, sharp competition for volume and capacity utilization persists between plants. This is a situation that will hardly be significantly mitigated by another economic recovery in Europe due to the dimension of the problem.

In this environment, the voestalpine Group's previous strategy of investing in an extension of the value chain and of focusing on the most technologically sophisticated market segments in steel production itself has paid off to the extent that the Steel Division's results are the benchmark in the European steel industry and that the Group overall can no longer be compared to traditional

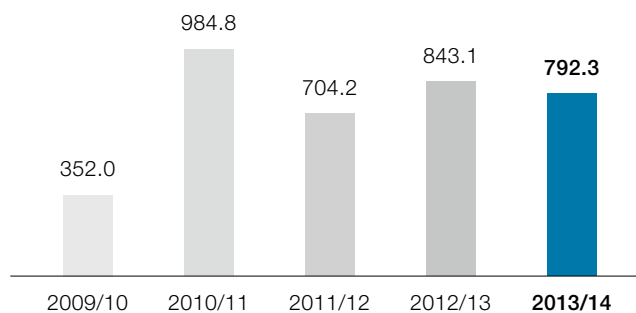
EBITDA

In millions of euros



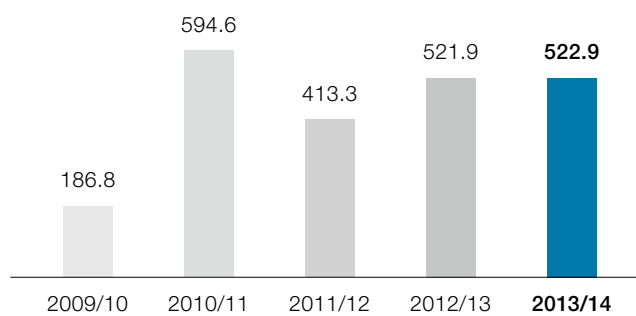
EBIT

In millions of euros



Profit for the period

In millions of euros



steel manufacturers with regard to how its results stack up against its competitors. The growth strategy is the consistent continuation of the course upon which the Group embarked successfully in 2011.

Report on the financial performance indicators of the voestalpine Group

Revenue and operating result

Despite the fact that for much of the business year 2013/14, economic conditions remained challenging, the voestalpine Group again achieved a solid development of the most important key figures. Although delivery volumes in the Steel Division grew compared to the last business year and quantities in the Metal Engineering and Special Steel Divisions fell only slightly, revenue declined by 2.6% from EUR 11,524.4 million in the business year 2012/13 to EUR 11,228.0 million in the current reporting period. The primary reason for this was a declining price level overall, triggered by dropping pre-material costs and continuing intense competition. With the exception of the Metal Forming Division, where revenue increased by 2.0%, this decline affected all other divisions equally.

A highly differentiated picture emerges, when one compares the development in the key reporting categories with that of the previous year. The decline in EBITDA and EBIT is due largely to an economic trend in the energy sector that continues to be critical. This applies, on one hand, mainly to the Special Steel Division, which was faced with sustained weakness in the energy engineering industry, and, on the other, to the heavy plate business segment (Steel Division), which was also negatively affected by the steep decline of awards for pipeline construction projects. Against this backdrop, the Steel Division reports a noticeable decline in results in the period under review (EBITDA -12.0%, EBIT -25.5%), while the results of the Special Steel Division (EBITDA -2.3%, EBIT +1.2%) and the Metal Engineering Division (EBITDA +0.6%, EBIT -0.2%) are largely at the previous year's

level. It is satisfactory that the Metal Forming Division made noticeable gains in both EBITDA (+8.2%) and EBIT (+10.2%). As a result of this performance by the individual divisions, the voestalpine Group achieved an operating result (EBITDA) of EUR 1,382.7 million in the business year 2013/14, which is 3.4% below the previous year's figure of EUR 1,431.3 million. With a minus of 6.0%, the decrease of profit from operations (EBIT) from EUR 843.1 million to EUR 792.3 million was somewhat more substantial.

Profit before tax and profit for the period

The fact that at EUR 656.0 million profit before tax in the business year 2013/14 still remained at a stable level (previous year: EUR 654.7 million) is the result of significantly lower financing costs due to the low interest rates in the current reporting period as well as repayment of a corporate bond with a coupon rate of 8.75%, which was issued during the financial crisis in the spring of 2009. The tax rate of 20.3% has remained the same as in the previous year so that profit for the period in the business year 2013/14 was EUR 522.9 million, thus remaining at the same level as in the previous year (EUR 521.9 million). As a result, earnings per share (EPS) of EUR 2.60 likewise remained practically unchanged compared to last year's figure (EUR 2.61).

Proposed dividend

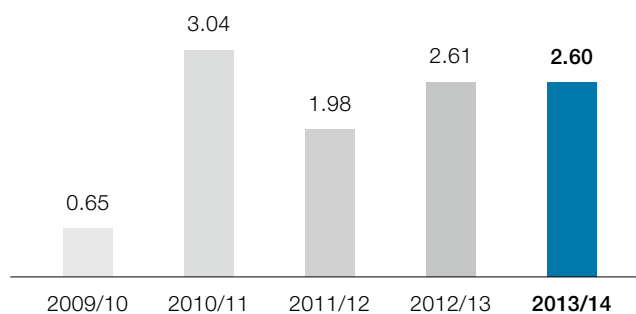
Subject to the approval of the Annual General Shareholders' Meeting of voestalpine AG on July 2, 2014, a dividend of EUR 0.95 per share will be distributed to shareholders. This represents an increase of 5.6% compared to last year's dividend of EUR 0.90 per share. Based on the earnings per share of EUR 2.60, this proposal corresponds to a distribution ratio of 36.5%. Based on the average price of the voestalpine share of EUR 31.21 in the business year 2013/14, the dividend yield is 3.0%.

Gearing ratio remains almost unchanged against the previous year

Although investment activity in the past business year increased to EUR 943.9 million, it once again became apparent that implementation of the

EPS – Earnings per share

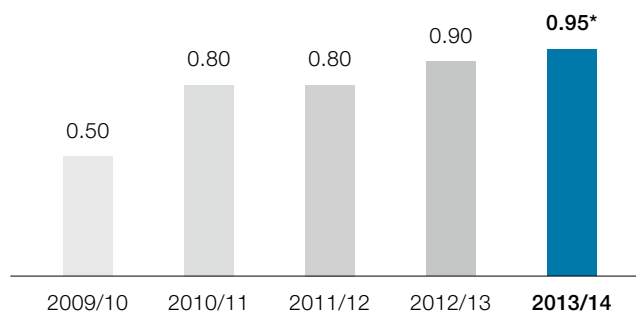
In euros



Dividend per share

In euros

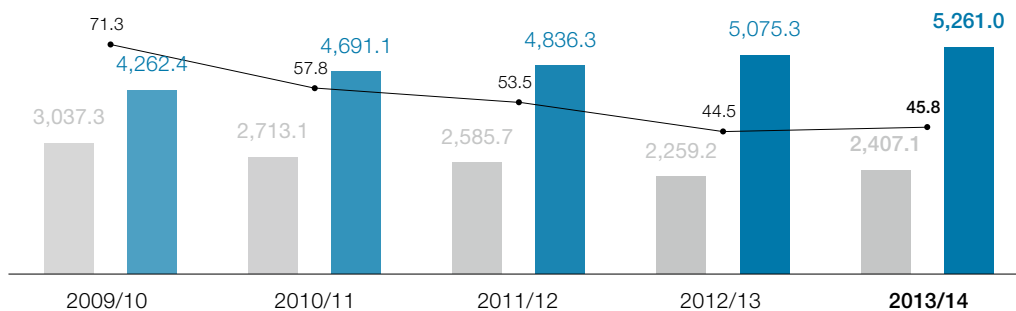
* As proposed to the Annual General Shareholders' Meeting.



Net financial debt – Equity – Gearing ratio

In millions of euros

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



Group's growth strategy is not related to a deterioration of key debt figures. As of the end of the business year 2013/14, the gearing ratio (net financial debt in percent of equity) is 45.8%, only slightly below the figure as of March 31, 2013 (44.5%).

In a year-to-year comparison, net financial debt increased by 6.5%, going from EUR 2,259.2 million in the previous year to EUR 2,407.1 million in the current reporting period. This is due, on one hand, to the aforementioned high level of investment activity and, on the other, to an increase in net working capital (increased interim inventories due to forthcoming blast furnace repairs). The solid operating results strengthen the Group's equity base even further. In concrete figures, equity rose by 3.7% from EUR 5,075.3 million as of March 31, 2013 to EUR 5,261.0 million as of March 31, 2014.

Cash flow

Cash flow from operating activities went down significantly in the past business year by almost one third to EUR 917.0 million compared to the previous year's figure of EUR 1,321.9 million. While profit for the period (net income) remained unchanged in a year-to-year comparison, it was primarily the change in working capital that was the decisive factor in this substantial decline.

While funds amounting to EUR 225.0 million were released in the business year 2012/13 by the reduction of net working capital, in the business year 2013/14, EUR 258.4 million had to be invested in an increase of working capital; the Metal Engineering Division was most strongly affected by this rise in working capital as a result of the ramp-up in pre-material inventories in preparation for the blast furnace repair in the summer of 2014 and the partial reversals of provisions associated with the antitrust proceedings relative to railway superstructure material and the closure of TSTG Schienen Technik GmbH & Co KG, Duisburg.

At EUR 786.6 million, cash outflow due to investment activity fell in the business year under review and is 5.2% lower than in the previous year (EUR –829.6 million). Cash flow from financing activities ran counter to this development. While cash and cash equivalents only fell by EUR 74.7 million in the business year 2012/13 due to the voestalpine Group's financing activities, in the business year 2013/14, they were reduced by accounting effects of EUR 674.2 million due to scheduled repayments of loans and dividend payments and especially by the cash outflow following the aforementioned repayment of a corporate bond issue with a volume of EUR 400 million and a coupon rate of 8.75% in the early part of the business year.

Quarterly development of the voestalpine Group

					BY		Change in %
	1 st quarter 2013/14	2 nd quarter 2013/14	3 rd quarter 2013/14	4 th quarter 2013/14	2013/14	2012/13 ¹	
Revenue	2,936.1	2,787.5	2,660.5	2,843.9	11,228.0	11,524.4	-2.6
EBITDA	366.3	320.6	319.9	375.9	1,382.7	1,431.3	-3.4
EBITDA margin	12.5%	11.5%	12.0%	13.2%	12.3%	12.4%	
EBIT	223.3	177.2	172.5	219.3	792.3	843.1	-6.0
EBIT margin	7.6%	6.4%	6.5%	7.7%	7.1%	7.3%	
Profit before tax (EBT)	179.9	140.5	136.1	199.5	656.0	654.7	0.2
Profit for the period ²	138.6	101.4	111.6	171.3	522.9	521.9	0.2
Employees (full-time equivalent)	47,154	47,744	47,085	48,113	48,113	46,351	3.8

¹ Business year 2012/13 retroactively adjusted in accordance with IAS 19 (revised).

² Before deduction of non-controlling interests and interest on hybrid capital.

Important events in the course of the year

Efficiency and cost optimization program 2014–2016

The overall challenges facing European industrial enterprises, such as continuing uncertainties on the macroeconomic level, volatile customer behavior, multiple uncertain political framework conditions, and continuously rising personnel and energy costs, are being additionally exacerbated in the steel industry by structural overcapacities, which lead to intense competition and resulting severe price pressure.

In this environment, in addition to a clear strategic orientation, lean cost structure is absolutely essential. In order to secure the solid competitive position of the voestalpine Group for the long term, which has been achieved through consistent work over many years—and thus, ultimately, the continued existence of the voestalpine Group—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 three years.

The focal points of the program will not only be additional improvements in the areas of logistics, maintenance, and energy efficiency, but will especially encompass the purchasing and procurement process both with regard to raw materials and general procurement, the development of new market regions as well as new organizational models in a number of business segments (including the entire Steel Division), tough and thorough exploitation of Group-wide synergies, and last but not least, the accelerated restructuring of sites whose performance is poor or inadequate.

Closure of TSTG Schienen Technik GmbH & Co KG

In March 2012, the Management Board of voestalpine AG resolved to discontinue rail production by TSTG Schienen Technik GmbH & Co KG in Duisburg. The subsequent negotiations with the Works Council regarding a reconciliation of interests and a social compensation plan for the remaining approximately 350 employees were successfully concluded in May 2013. The closure of the company was completed in the fourth calendar quarter as planned, and as of January 1, 2014, the remaining employees were transferred to an interim employment company. The facilities were dismantled and the remaining inventory of rails was delivered at the beginning of the business year 2014/15, and all activities in connection with the closure of TSTG Schienen Technik GmbH & Co KG have now been concluded.

(Investment in) a direct reduction plant in Texas, USA

The groundbreaking ceremony for the construction of the Group's new direct reduction plant in Texas, USA, took place on April 23, 2014. Once the plant is fully operational after about a two-year construction phase, it will produce two million tons of sponge iron annually, in technical terminology called DRI (direct reduced iron) or HBI (hot briquetted iron). This HBI will be partly used at existing sites in Austria in the classic steel production process using the blast furnace route, where it optimizes the raw materials mix, thus significantly lowering production costs. This will

secure the competitiveness of the Group's existing sites in Europe for the long term. The new plant in Corpus Christi, Texas—representing an investment amount of EUR 550 million, the voestalpine Group's largest foreign investment up to the present—also opens up new growth opportunities in American economic regions. In North America alone the voestalpine Group already has 68 companies staffed by around 2,500 employees, which generate annual revenue of about EUR 1 billion, primarily in the automotive, special steel, energy, and aviation sectors.

The direct reduction plant in Texas will not only create 150 jobs, but it will help the voestalpine Group to further improve its carbon footprint and increase energy efficiency, with the most significant factor being the use of natural gas to reduce the iron from ore or pellets, which causes far fewer CO₂ emissions than the classic blast furnace route using coke as the reducing agent. This will enable the Group to continue to enhance its leading position with regard to environmental and energy efficiency. As of the beginning of the business year 2014/15, the project is on schedule and precisely within budget.

Antitrust proceedings relative to railway superstructure material

After the German Federal Cartel Office (Bundeskartellamt) had imposed fines in July 2012 in the antitrust proceedings relative to railway superstructure material on four manufacturers and suppliers of rails for having entered into anti-competitive agreements to the detriment of Deutsche Bahn AG, the monetary penalty proceedings associated with the so-called rail cartel were concluded in July 2013 with its decision on the portion of the proceedings concerning the "private market". The "private market" portion of the rail cartel case concerns deliveries of rails and railway superstructure material to municipal mass transit agencies as well as industrial customers and construction companies. For this portion of the proceedings, a fine in the amount of EUR 6.4 million was imposed upon the voestalpine

Group. Within the scope of the monetary penalty proceedings, fines totaling EUR 14.9 million were imposed on voestalpine companies. Otherwise, voestalpine's status of cooperating witness was confirmed for the major part of both proceedings. As far as claims for compensatory damages by customers for deliveries by the cartel are concerned, corresponding payments were agreed upon that cover both direct and indirect deliveries of rails to Deutsche Bahn, which means that only compensatory damages for deliveries to municipal mass transit agencies and other private market customers are still unresolved. Due to the large number of companies involved, the period of time needed to resolve the matter completely cannot be reliably estimated at present.

The provisions set aside in the annual financial statements 2012/13 in the amount of EUR 204.4 million for the antitrust proceedings and associated actions and costs as well as for the closure of TSTG Schienen Technik GmbH & Co KG were reduced in the business year 2013/14 by the amount of the compensatory damages paid for direct and indirect deliveries of rails to Deutsche Bahn as well as by the amount of payments made in connection with the closure of TSTG Schienen Technik GmbH & Co KG. The total remaining provisions were adjusted in the business year 2013/14 in accordance with the current estimate, resulting in non-recurring income totaling EUR 8.1 million (balance from reversal and appropriation); as of March 31, 2014, the provisions amount to EUR 76.4 million.

Important events after the reporting date

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

Investments

After a phase of consolidation in the wake of the financial crisis, investment activity by the voestalpine Group has intensified significantly since the business year 2012/13 in order to facilitate the Group's accelerated development. In 2013/14, total investment volume amounted to EUR 943.9 million, 10.9% above last year's figure of EUR 851.5 million.

At EUR 447.4 million, the investment volume of the Steel Division was significantly higher (by 61.3%) than the figure in the last business year (EUR 277.3 million). The division's long-term direction is not based on an expansion of steel production capacity, but rather on the continued increase in the share of top-quality products. The construction of the continuous annealing line II for the production of premium quality electric strip should be viewed with this background in mind. During the run-up phase, which began at the start of the business year 2014/15, the continuous annealing performed excellently so that it was possible to push start-up of operations forward to the end of April 2014. The construction of the new heavy plate rolling stand, which is scheduled for operational launch in the coming fall, was also planned under the aspect of these new, comprehensive dimensions of quality. The objective is to produce completely new qualities with regard to sour gas resistance and high-tensile strength for the energy sector. In addition to the improvement of the product mix, cost ef-

iciency of production is a key operational and strategic issue. New investments are currently focused on coal injection systems in all three blast furnaces in Linz (Austria) as well as the construction of a direct reduction plant in Texas (USA). While the work on the installation of the coal injection systems is well underway and will be completed in the course of the business year 2014/15, construction of the direct reduction plant is still in a very early phase (for details, please see the chapter "Events of significant importance in the course of the year").

The Special Steel Division invested a total of EUR 181.8 million during the business year 2013/14, a drop of 29.3% compared to the previous year's total (EUR 257.2 million). Growth in this division is being driven primarily by the consistent realization of its value-added strategy in defined industrial segments. In this context, measures have been implemented in important sales regions to expand service activities, such as heat treatment, pre-processing, and coating. Moreover, after the acquisition of the Eifeler Group in the business year 2012/13, production of special coating technologies for high-quality tool steel was driven forward in global growth markets (China, Taiwan). The distribution center in Kapfenberg (Austria) was expanded within the scope of optimization of global distribution of tool steel, high-speed steel, and special materials. Investment measures in special steel production are focused primarily

on projects dealing with optimization of quality and productivity. In addition to these main focal points, measures to improve occupational safety and environmental protection, mainly at the Wetzlar/Germany site, were implemented within the scope of a four-year investment program. In the second half of 2013, two investment projects that are groundbreaking for the Special Steel Division were finalized—the new dual rolling stand was put into operation at the Mürzzuschlag (Austria) site and the expansion in capacity for producing powder-metallurgical steels at the Kapfenberg (Austria) site was completed.

Investment activity in the Metal Engineering Division increased by 4.4% from EUR 164.9 million in the business year 2012/13 to EUR 172.1 million in the year under review despite the fact that one of the two blast furnaces at the Donawitz (Austria) site was relined last year. The division's most important current investment is the construction of a new wire rod mill at the Donawitz (Austria) site; this investment is facilitating the implementation of long-term objectives. The new wire production line is supposed to begin operation in 2016; the Metal Engineering Division will then have Europe's most modern facility for the production of highest quality wire for the automotive and energy industries. Other investment focal points in the business year 2013/14 were a new walking beam furnace for the rail production facility and several smaller-volume projects in the turnout segment.

The activities of the Metal Forming Division, which reduced its investments from EUR 142.6

million in the business year 2012/13 to EUR 130.6 million in the current reporting period, a decrease of 8.4%, were focused on the implementation of the globalization strategy. The division is ensuring proximity to its strategically important automotive customers as they are expanding by building new plants in the USA, South Africa, and China in order to be able to provide them locally with sophisticated safety-related automobile components that are focused on the new product segment "phs-ultraform" (press-hardened steels based on new technology). The necessary facilities were completed in the past business year and are up and running so that it was possible to begin production for customers as of the start of the business year 2014/15. Other identical or similar plants are in the process of being planned or implemented due to massive customer demand. Similarly to the Automotive business segment, the Tubes & Sections business segment focused its investment activity on continuing internationalization by customers, particularly in the construction and agricultural machinery industries. With the completion of a new sections plant in China, customers who operate internationally in these industries will be supplied with special sections in this growth market from the beginning of the business year 2014/15. In the Precision Strip business segment, the second phase of expansion was completed at the Kematen (Austria) site in the first half of the business year; it is one of the most modern cold rolling centers worldwide for the production of high-quality strip steel.

Acquisitions

As part of the implementation of the Group's growth strategy, the business year 2013/14 saw several acquisitions that were modest individually but that have considerable importance for the Group's further development. While the acquisitions in the Metal Engineering Division primarily expanded its product portfolio, the acquisitions made by the Special Steel Division were intended to extend the customer-specific value chain and to bolster the accelerated internationalization process.

Specifically, at the beginning of the business year 2013/14, the Metal Engineering Division acquired and fully integrated the Italian company Trafilerie di Cittadella S.p.A. voestalpine Böhler Welding Group GmbH took over 90% of the shares of this company, which specializes in the production of seamless flux cored wire. The Italian company, which has 60 employees, generated annual revenue of EUR 13.7 million in 2012.

The Welding Technology business segment acquired the Indian company Maruti Weld Pvt. Ltd., which is headquartered in Delhi, and which specializes in manufacturing welding electrodes. The acquisition of this company, which has 180 em-

ployees and generated annual revenue of EUR 6.7 million in 2012, will enable the Group to accelerate the penetration of the Indian growth market. It has modern facilities and will provide an outstanding, regional production base.

With the takeover in the first quarter of 2013/14 of the assets of Rieckermann Steeltech Ltd. (Shanghai) and P.M. Technology Ltd (Shenzhen) with workforces totaling around 100 employees, the Special Steel Division continued to enhance its position in China, a future-oriented market. These production and service sites were acquired within the scope of an asset deal, enabling further expansion of the distribution and service areas. Moreover, the acquisition supports the division's focus on sophisticated special materials in the growth industries of energy and mobility.

The acquisition of Eifeler France S.a.r.l. in December 2013 is also allocated to the Special Steel Division; this was a follow-up to the acquisition of the Eifeler Group in late March 2013 with a total of nine companies in Germany, Switzerland, and the USA. Most recently, Eifeler France S.a.r.l. reported annual revenue of EUR 1.6 million; it has 15 employees.

Employees

As of March 31, 2014, the voestalpine Group had 43,875 employees (excluding apprentices and temporary staff). This corresponds to an increase of 1,797 persons (+4.3%) compared to the headcount on March 31, 2013 (42,078). The total workforce (including apprentices and temporary personnel based on FTE/full-time equivalent) rose to 48,113 employees, thus increasing by 1,762 employees or 3.8% compared to the previous year (46,351 FTEs)

Due to the Group's increased internationalization activities in the past years, the employee structure of core staff has changed accordingly: today, more than 52.1% of all employees (22,864 persons) are working at the Group's international locations outside of Austria, with 21,011 employees working in Austrian companies.

As of the end of the business year, the voestalpine Group was training 1,405 apprentices (65.6% of whom were being trained at Austrian companies and 34.4% at international sites). Compared to the previous year (1,351 apprentices), the number has risen by 54 young people (+4.0%).

Employee shareholding scheme

The employee shareholding scheme, which has existed since 2001 and has since been gradually expanded, is currently available abroad for Group employees in Great Britain, Germany, the Netherlands, Poland, and Belgium. As a result of the integration of additional companies in the business year 2013/14, more than 10,000 employees in these countries have now been invited to participate. As of March 31, 2014, a total of 23,300 employees are voestalpine AG shareholders by way of the voestalpine Mitarbeiterbeteiligung Privatstiftung and hold a total of around 22.3 million shares. Due to the general bundling of voting rights, these employees, with a holding of 13.0% of share capital (previous year: 13.3%), are one of the two largest core shareholders of voestalpine AG. About 1.8 million private shares owned by current and former employees (this corresponds to about 1.0% of the voting shares) are also man-

aged by the voestalpine Mitarbeiterbeteiligung Privatstiftung. Thus, currently 14.0% of voestalpine AG's share capital (previous year: 14.4%) 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 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 2013/14, more than 86% of the participants who were looking for work were able to find a new job with the help of the Stahlstiftung. This high placement rate, which is excellent by international standards as well, even improved slightly compared to the previous year.

As of the end of the business year, a total of 407 persons were being assisted by the Stahlstiftung, of whom 55.0% were participants from companies not belonging to the voestalpine Group. The total number of active participants of the Stahlstiftung in the business year 2013/14 was 777, an increase of 5.1% compared to the previous year (739 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 students majoring in technical and scientific subjects. voestalpine teams from technology fields and HR introduced the Group not only at the International Student's Day of Metallurgy in Krakow (Poland) but also at national student fairs throughout Austria and

Germany as an attractive employer for entry-level employees. In order to bolster the overall strategy of the voestalpine Group, international career fairs were not neglected, for example, the German-Chinese career fair SinoJobs Career Days, which gave the Group the opportunity to introduce itself to talented young people from Asia as an international industrial enterprise.

voestalpine AG is Austria's BEST RECRUITER 2013/14

voestalpine AG was the overall Austrian winner in the BEST RECRUITERS Study 2013/14 (as a comparison, when the first study was conducted in 2010/11, voestalpine AG was in 37th place). BEST RECRUITERS annually analyzes the 500 top employers in Austria according to various criteria, such as career website, social web, online job ads, and how test job applications are handled. voestalpine precisely analyzed the findings of the last three studies and implemented numerous improvements. Special attention was paid to the target group-specific online HR channels, which voestalpine successively established in the past few years. In addition to the corporate website, there is a separate apprentice website, a career page on Facebook, and a career section in the corporate blog. These channels were again expanded to extend their reach. Reports about day-to-day work on Facebook and the section "blogging employees" have been generating an enormous response.

voestalpine student evening at the Leoben University of Mining and Metallurgy

In addition to ongoing activities, such as fairs, excursions, etc., a voestalpine student evening was held for the target group encompassing technical students at the Leoben University of Mining and Metallurgy, which is particularly important for the Group. Around 450 students took advantage of the opportunity to collect information about the voestalpine Group. All five members of the Management Board of voestalpine AG, two of whom graduated from the Leoben University of Mining and Metallurgy themselves, person-

ally presented the Group's work environment, its research, and its products. After the lectures, the students utilized the opportunity to gather information about jobs from the various voestalpine companies and to address questions to the members of the Management Board.

Apprentices (focus Austria, Germany)

voestalpine employs 1,405 apprentices worldwide. The majority is trained in Austria and Germany, where the "dual system," the combination of school and practical application, is in use. Currently, training for around 50 vocational occupations is being offered at 38 sites. In the last business year, many schoolchildren and their parents took advantage of the "open house days" at various sites in order to personally gather information about career opportunities. The voestalpine online channels (apprentice website, Facebook, and most recently Instagram as well) are being extensively utilized by young people.

The voestalpine Group invests more than EUR 21,400 in the training of each single apprentice. The apprentices regularly prove that this is an investment well worth it by their results in international competitions but also by the impressive number of young people who complete their apprenticeships: in the last business year, 95.6% passed their final examination. Of the apprentices in Austria, 63.0% passed their final examination with the grade "good" or "excellent" (this system is not applicable for other countries).

In addition to providing specialized knowledge for their future occupation, voestalpine also supports the development of personal and social skills: language study abroad, simulation games, workshops on health, and excursions to other companies are part of the training concept.

Employee survey

An employee survey was again conducted throughout the voestalpine Group in October 2013. Employees worldwide (!) filled out anonymous questionnaires and evaluated aspects, such as working conditions, cooperation, and the leadership situation. The objective of this survey,

which is conducted every three years, is to identify criteria of an attractive work environment that are relevant from the perspective of employees and to improve these criteria on an ongoing basis. The record response rate of 75.2% shows that employees have confidence in the voestalpine employee survey. From the perspective of employees, the pluses of working at voestalpine are the strong work ethic, enjoyment of one's work, and activities regarding occupational safety. Employees' pride that they are working at voestalpine and their identification with the company are also high.

"Feedback" and "professional development opportunities" have been identified as Group-wide topics. At the corporate level, each company will additionally define two to three core improvement measures. A Group-wide monitoring of measures and sharing of experience will support the companies in working through the findings. The employees will be informed about relevant activities on an ongoing basis. The next employee survey is scheduled for 2016.

Development of executives

In the business year 2013/14, 168 participants from 21 countries took part in the "value:program," an internal development program for executives; 40.5% of the participants came from Group companies outside of Austria. The percentage of women was 15.5%. Frequent lectures held recently are further proof that voestalpine is "One step ahead" with its development program for executives. In lectures at four conferences in Austria and Germany, the innovative design of the program and the methods used piqued the interest of the high-profile audience of experts.

Collaboration with universities

Each year, voestalpine enables students from Emory University (Atlanta, Georgia/USA) to participate in a ten-week internship. In exchange,

selected students of the Johannes Kepler University in Linz receive a one-year scholarship to Emory University. Students in the international MBA program "ACT – Austria, Canada, Taiwan," a joint study program of the Johannes Kepler University Linz, the University of Victoria in Canada, and National Sun Yat-sen University in Kaohsiung in Taiwan, received a comprehensive tour of the Linz plant and took part in project work lasting several weeks.

There are numerous ongoing collaboration projects with the Leoben University of Mining and Metallurgy (MUL), such as voestalpine's sponsoring of the Montanuni truck for its information tour of Austria and the Metal Days, which are both held to stimulate young people's interest in studying at the University of Mining and Metallurgy, participation in the Contact Forum (student fair at the University of Mining and Metallurgy), company presentations, etc. Moreover, voestalpine companies provide students with the opportunity to undertake internships or work on scientific papers in collaboration with voestalpine. At the international level, voestalpine was one of the sponsors of the International Student's Day of Metallurgy in Krakow in 2013; an expert from voestalpine held a lecture and voestalpine provided the booth. More than 200 students from about 15 European universities took part in this three-day event.

High mobility pool

After the successful Europe-wide recruitment of participants for the 2011 generation, the internationalization of the program was continued. For the 2013 generation, participants from Brazil, China, Canada, and Mexico were recruited. The high mobility pool provides high potentials, who have a few years of professional experience, with the opportunity to get to know the voestalpine Group through concrete projects in the individual divisions and departments.

Raw materials

The prices for the most important raw materials for blast furnace-based steel production—ore, coal, coke, scrap—have been trending downward in the past business year. At the same time, price fluctuations for iron ore have been less pronounced than in the previous years. While the price of fine ores on the spot market ranged between USD 130 and 140 (CFR China) in the early part of the business year 2013/14, it fell in the following months to USD 110, before returning to its initial level over the summer months. The unexpected rise was largely due to an increase in demand for iron ore by Chinese steel manufacturers. The following lateral shift of the price continued until the end of the calendar year before dropping again to under USD 110. Experts on the raw materials market by and large agree that ore prices will tend to go down further in the coming years, however, the magnitude of this price decline is unknown. Against this backdrop, a number of major iron ore producers announced during the past year that they intend to scale down some of their medium-term investment and expansion plans.

In the second half of the business year 2013/14, there was more demand for lump ore and pellets than for fine ore in China for environmental reasons. As a result, the price difference between these categories and fine ores increased significantly.

Prices for coking coal continued to fall steadily in 2013/14, as has been the case since early 2011. The price for one ton of coking coal on the spot market (FOB Australia) has been moving toward

the USD 100 mark since the end of the business year; in the past three years, its price has fallen by about two thirds. The reasons for this are, on one hand, availability of additional coal resources from Mongolia, which are being utilized primarily by Chinese steel manufacturers, thus limiting their import requirements from Australia and Canada, and on the other that coal producers worldwide have not experienced production stoppages due to inclement weather since 2011.

Similarly to coking coal, procurement costs for coke have declined substantially in recent years, with the price dropping from USD 500 to just over USD 200 per ton (FOB Russia, Columbia, Japan) in the past three years. As a result, the price differential between coking coal and coke—and thus the value-added for refining and processing—has gone down to about USD 100.

Prices for iron and steel scrap, which is used as supplementary input material in steel mills in addition to liquid iron smelt, are subject to the regional development of supply and demand, which tends to be less volatile than prices for iron ore, coal, and coke. In the business year 2013/14, the price per ton of scrap fluctuated between EUR 250 and 290.

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

Research and development

Keeping up with the latest trends over the past few business years, the voestalpine Group continues to remain the most research-intensive corporation in Austria, with a research and development outlay for the business year 2013/14 equaling EUR 130.0 million. This figure represents a rise in R&D expenditures of EUR 4.4 million, or 3.5%, in comparison to the previous business year (EUR 125.6 million); this new record figure once again underscores the significance of this division to the Group as a whole. In a year-over-year comparison, the research ratio (proportion of R&D expenditures in relation to revenue) increased from 1.1% to 1.2%; the R&D coefficient (funds measured in terms of value creation) moved up from 2.87% to 2.90%.

The primary focus of research activity, on the one hand, was placed on those industries with the greatest potential for growth—namely, mobility and energy. On the other hand, the Group also focused on sustainability and environmental compatibility. In the area of process developments, energy efficiency took center stage, together with resource efficiency, CO₂ reduction, zero waste, and steady improvements to quality. All production processes were closely examined with regard to their potential for resource recovery of recyclable materials and energy. In collaboration with various university institutes, the Group is pursuing methods to develop and optimize recycling processes for metalliferous by-products (specifically zinc, lead, and copper). Additional projects are aimed at heat recovery from slag.

Research efforts on resource efficiency concentrate foremost on elevating the flexibility of input materials, such as those obtained from innovative mixtures of ores, and on the accelerating the substitution of coal with natural gas by using HBI/DRI technology; however, these efforts also focus

intensely on the optimization of the entire process chain—in other words, improved compatibility and coordination of individual process steps based both on simulations of metallurgical process and forming technologies and on the development of model-based systems management.

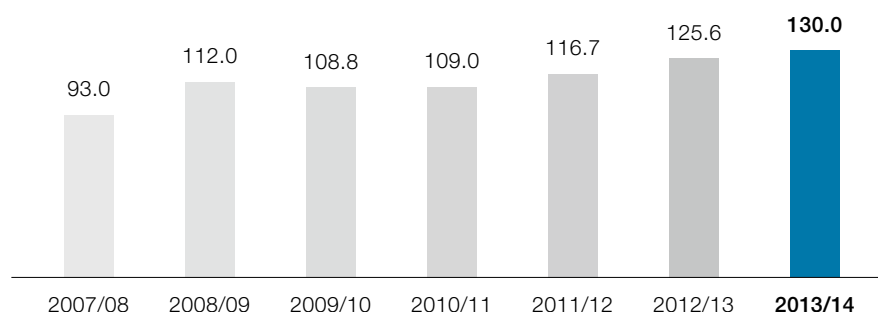
Product development for the mobility and energy sectors is concentrated on the following areas: ultra-high strength steels—specifically HD (high ductility) steel; new qualities of electric steel strip for use in electric motors; tools and tool materials for high and ultra-high strength steels; forged aviation components from nickel-based alloys; head check and wear resistance-optimized rail steel; life-cycle optimized turnouts; high tensile cold extrusion wire materials; new kinds of sophisticated sections and tubes based on high-strength coated steels; welding consumables for ultra-high strength and highly heat-resistant applications; and parts and part components for the renewable energies sector.

In the field of aviation, Group companies in the Special Steel Division, working in collaboration with a jet engine manufacturer under the CleanSky Project, were able to apply the findings from computer-based forging and heat treatment simulations to the specific design and optimization of engine disks made from a nickel-based alloy. In doing so, they model the distribution of mechanical processes in the forged component—yield strength, for instance—in advance, and then make them available to the customer. Collectively, the forged component's geometry and process management can be optimized in such a manner that ultimately—and in keeping with the principles of lightweight construction—a turbine disk with custom-tailored distribution of mechanical properties can be forged and delivered.

Research expenses for the voestalpine Group

In millions of euros

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



Following intensive research efforts in the materials development of high-tensile sour gas-resistant steels for oil field pipes, the Metal Engineering Division succeeded in completing its initial orders. With regard to thread development, the Connection Testing Center commenced operations in October 2013, so that the division can test gas-tight pipe thread connections under combined loads up to the most rigorous design and performance specifications. A highly innovative type of rail steel for the tram segment that exhibits superior welding and wear properties was engineered in record time and already placed in the market, while DOBAIN[®], the tear-resistant bainitic brand of rail steel, is currently being tested on various test tracks throughout Europe, at customer request. The newly developed strip-powder combination for electroslag welding (Alloy 625) now makes it possible to execute contract welding

jobs applying only one coat to protect system components from chemical and thermal stresses. Previously, at least two coats were necessary (Welding Consumables business segment).

As previously mentioned, voestalpine is also continuing to pursue the targeted expansion of its successful, long-term collaboration with a number of university institutes, research institutions, and competence centers.

For example, in the COMET research program, the Group is involved with ten different competence centers and projects on various priority issues. The main projects center on the fields of metallurgy (K1-MET for metallurgical and environmental process engineering), materials engineering (MPPE), and mechatronics (ACCM – Austrian Center of Competence in Mechatronics). In addition, there are several other important

collaborative efforts in steel processing (AC2T – Austrian Competence Center in Tribology; Join4+; K2Mobility; FFT – Future Farm Technology), materials testing (ZPT – non-destructive test engineering), surface treatment (CEST – Center of Competence in Electrochemical Surface Technology), and in pioneering IT solutions (SCCH – Software Competence Center Hagenberg). These centers of competence serve as interfaces between science and business and industry; they direct their research efforts at the latest issues confronting industry today.

The core area of expertise and research focus of the Leoben University of Mining and Metallurgy-based K2 center, MPPE (Material, Process, and Product Engineering), is the integration and optimization of materials selection, manufacturing processes, and component geometry, with the aim of achieving the highest degree of functionality, process safety, and lightweight quality, while keeping costs as low as possible. The voestalpine Group is collaborating with MPPE on numerous R&D projects. After this center of competence received its positive international evaluation, joint cooperation agreements took effect for Phase Two of the K2-Center.

CEST GmbH, Austria's center of competence for electrochemical surface technology, celebrated its 5th anniversary in June 2013. As co-owner of CEST, voestalpine Stahl GmbH has also been solidly anchored in the joint research program for years. Working together with experts from the Vienna University of Technology, the Graz University of Technology, the Johannes Kepler University Linz, and the Leoben University of Mining and Metallurgy, answers to burning questions

about surface engineering—such as substitutes for chromium VI—were reached over the past few years through over 20 projects.

Under “Horizon 2020,” the new EU Framework Program for Innovation and Research, voestalpine is participating in the public-private partnership “SPIRE” (Sustainable Process Industry through Resource and Energy Efficiency), an initiative of energy-intensive industries—including the steel industry—with the aim of creating new, cross-sector energy- and resource-efficient solutions.

Environment

Environmental expenditures

In the business year 2013/14, the environmental investments of the voestalpine Group equaled around EUR 23 million (2012/2013: EUR 27 million); ongoing operating expenses for environmental systems totaled roughly EUR 218 million¹ (2012/13: EUR 213 million). Thus, the voestalpine Group's total environmental expenditures of EUR 241 million exceeded the previous year's level by a negligible amount (2012/13: EUR 240 million).

The Group's environmental projects in the last business year

During the last business year, as in prior years, voestalpine concentrated its main efforts in the environmental sector on air purification, water management, energy efficiency, noise abatement, waste disposal, and recycling management.

The focus of the air purification projects was to minimize dust emissions by installing new dust extractor and filtration systems—as well as entire dust extraction systems—primarily at its largest location in Linz, Austria, and at Villares Metals in Brazil. The Metal Engineering Division also substantially improved the occupational environment at one of its plants in China by optimizing the dust extraction systems there.

In regard to water management, the focus was placed on optimizing cooling systems during business year 2013/14. Thus, for example, the Special Steel Division switched some systems

from open to closed cooling water systems at the Kapfenberg (Austria) location, while at the Krieglach (Austria) site of voestalpine Rotec GmbH (Metal Forming Division), the cooling system for the hydraulics station was switched to a security system that addresses leakage incidents.

Numerous measures for increasing energy efficiency were implemented within the Group over the course of the past several years. For example, today the production facilities at the Linz steel plant are largely reporting markedly lower specific energy consumption than just five years ago. Indeed, the plant attained an especially significant increase in energy efficiency with its blast furnaces. This can be attributed to generally optimized system configurations, the most robust operation of production systems possible, and comprehensive measures to increase energy efficiency, such as pump programs, state-of-the-art electric motors, optimized thermal processes, and reduction of standby energy consumption.

With regard to energy efficiency, the Special Steel Division successfully implemented the next phase of the fuel conversion from oil to liquid natural gas at the Uddeholm (Sweden) location. Additionally, a series of measures to improve output was established as a further contribution to energy and resource efficiency. In order to raise energy efficiency at other locations within the Division even further, additional measuring equipment was installed to monitor energy use.

Environmental management

As in previous years, over the past business year Group companies within the voestalpine Group

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

were again awarded recognition for their implementation of measures in the environmental sector. Beside successfully obtaining initial ISO 14001 certification of the new voestalpine Steel Service Center in Romania, the efforts in the field of environmental management were also rewarded at the following locations: voestalpine Tubulars GmbH & Co. KG in Kindberg (Austria) received Austria's EMAS award for its 2012 Environmental Declaration; furthermore, its energy efficiency efforts also garnered accolades with the klima:aktiv Award for Excellence in Climate Protection. The klima:aktiv award was likewise awarded to BÖHLER Edelstahl GmbH & Co. KG in Kapfenberg (Austria). Each of the following Group companies based in Zeltweg (Austria)—voestalpine VAE GmbH, voestalpine Weichensysteme GmbH, and voestalpine HYTRONICS GmbH—were honored with the 2014 EMAS Award for their long-term action plans in the area of "holistic life cycle optimization of product portfolios and production processes." voestalpine Böhler Welding Group GmbH received an award as an "Eco-Profit Company" (ÖKO-Profit Betrieb) for its location in Hamm, Germany.

Environmental policy topics

The European Commission's 7th Environment Action Programme (EAP)

The current 7th Environment Action Programme of the European Commission, which took effect at the end of 2013, forms the strategic framework for European environmental policy until 2020. It involves a series of 60 definitive measures of relevance to voestalpine.

The most significant challenge is represented by the ecological valuation of products across their entire life cycle through to their reuse or recycling. voestalpine already incorporates this balance both in the development of materials and then again in production. The ecological advantages of steel and thus, the environmentally sound

performance of materials, contribute substantially to the company's economic success. The Group ensures that this subject matter is consistently and continuously developed through the Group's cross-divisional and cross-departmental Life Cycle Assessment (LCA) Team and its active collaboration in work groups and in advocacy and special interest groups on the LCA issue.

Climate and energy policy

In March 2014, the Council of the European Union instructed the Commission to develop proposals for a coherent climate and energy policy for the period from 2020 to 2030 by June 2014. It intends to vote on these proposals in October 2014.

The Council of the European Union determined that, in regard to the year 2030, it will give a binding target value for the EU's CO₂ emissions reductions. However, this "2030 climate goal" is not determined and adopted in isolation; rather, it is part of a political framework that will encompass the aspects of greenhouse gases, renewable energy, and energy efficiency.

In structuring the proposal for such a framework, the Commission must give equal weight to the treatment of the following aspects: affordable energy prices; industrial competitive ability; security of supply; achievement of goals for climate and environment; and, measures that would guarantee the competitive ability of energy-intensive European industries.

The Council of the European Union identified the lowering of the EU's dependence on energy imports as an autonomous goal that—through broad diversification of energy sources—should enable the EU to achieve energy efficiency, network expansion, and the further development of subsidy mechanisms for renewable energies with regard to cost efficiency as well as the convergence of national systems after 2020.

From voestalpine's perspective, these conclusions set the right course, in principle—but one that the Commission, in fact, must also delineate in

adequate detail and clarity. Most of all, it requires—within the EU emissions trading system—free allocation by means of benchmarks that are technologically realistic and economically feasible, based on actual production, and without being restricted by additional “corrective factors.” In addition, a revision to the energy efficiency guideline is needed that would acknowledge industrial energy recovery as a worthwhile endeavor, rather than penalize such efforts.

Industrial Emissions Directive (IED); state-of-the-art technology

As previously illustrated in the prior year’s Annual Report, the revised version of the Industrial Emissions Directive (IED) 2010/75/EU became effective at the start of 2011, replacing the IPPC Guideline (Integrated Pollution Prevention and Control Directive). It is intended to guarantee the Europe-wide standardization of systems-oriented threshold values and measures for certain industrial activities.

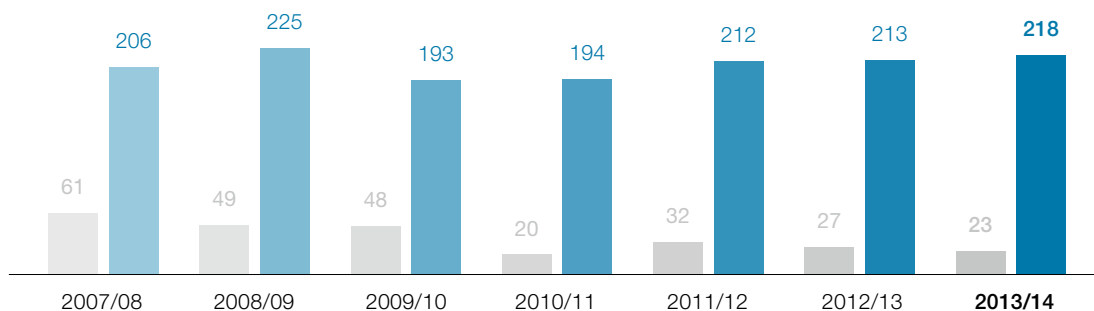
In the interim, the national implementation process within Austria has advanced to the point that the requirements for maintaining state-of-the-art technology to prevent or ameliorate environmental pollution have been implemented, with respect to content, in the respective materials laws. These include, for example, the Waste Management Act, the Industrial Code, and the Water Rights Act.

At the integrated steel mill locations of the Steel Division and the Metal Engineering Division, pig iron and steel production areas underwent evaluation with regard to the need for adaptation or modification, by direct application of the IED and those documents that define the required environmental measures. In the findings, it was determined during the evaluation that as of the present date, configuration of the systems structure already complies with the “latest redefined” state of the art.

Environmental expenditures¹

In millions of euros
Based on Austrian locations

■ Environmental investments
■ Operating environmental expenses



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

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 the success of the Group as a whole.

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; this policy has been updated and expanded on an ongoing basis.

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. Risk management and the internal control system 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, as an independent, in-house department, has full discretion when reporting and assessing audit results.

The systematic risk management process assists management in recognizing potential risks early on and initiating appropriate action to avert or prevent dangers. In order to ensure value-oriented corporate management, risk management is an integral part of the Group's business processes. Risk management covers both the strategic and the operational levels and is therefore a major element in the sustainable success of the Group.

Strategic risk management serves to evaluate and safeguard strategic planning for the future. Strategies are reviewed to ensure conformity with the Group's system of objectives in order to ensure value-adding growth by way of an optimum allocation of resources.

Operational risk management is based on a revolving procedure that is run at least once a year uniformly across the entire Group. The evaluation of identified risks is implemented using an evaluation matrix that assesses possible losses and the probability of occurrence. The main risks being documented are operational, environmental, market, procurement, technological, financial, and IT risks. This process is aided by a special web-based IT system.

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

■ Availability of raw materials

Ensuring supply of the required quantity and quality of raw materials and energy in the long term is a permanent challenge. The voestalpine Group has therefore for some years maintained a diversified procurement strategy that reflects these 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 raw materials are hedged by executing delivery contracts containing fixed price agreements or by utilizing derivative financial instruments. An internal guideline comprehensively defines objectives, principles, and responsibilities, in addition to methodology, processes, and decision-making processes, for how raw materials risks are handled.

■ CO₂ issues

Risks associated with CO₂ 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 tech-

nical optimization of sensitive units. Other measures being taken are consistent preventive maintenance, risk-oriented stockpiling of spare parts, and comprehensive employee training.

■ Knowledge management

In order to sustainably secure knowledge and especially to prevent the loss of know-how, complex, extensive 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, 2014, 78% of the Group'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, 2014, an increase of the interest rate by 1% will result in an increase of

the net interest expense amounting to EUR 6.5 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 related to 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) 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 169.5 million and a reversal of deferred tax assets amounting to EUR 126.4 million depends on the result of the preliminary ruling proceeding. At this time, the risk of a reversal is viewed as unlikely.

EEG surcharge in Germany

The exemption from the EEG surcharge (Renewable Energy Sources Act) in Germany for electricity-intensive companies is being reviewed by

the EU Commission as to whether it conforms to the EU State aid regulations. Therefore, there is the risk that possible repayments must be made or that future exemptions are canceled. This risk affects a company belonging to the Special Steel Division. The exemption from the EEG surcharge for one year amounts to EUR 22 million. 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 crises and their effect on the voestalpine Group, additional—primarily corporate—measures were taken during the past several years to minimize risk exposure, and these measures are continuing to be consistently implemented and will continue 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 at a stable level with concurrent continual improvements 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. Starting in this business year, the reliability of these SAP systems is being guaranteed by automated business process controls that are built into the system as well as by other methods. Furthermore, also starting in this business year, reports about critical authorizations and authorization conflicts will be generated automatically.

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

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

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

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

The accounting and controlling departments of the individual Group companies submit monthly reports with key performance indicators (KPIs)

to their own Management Boards and managing directors, and, after approval, to Corporate Accounting & Reporting to be aggregated, consolidated, and reported to the Group Management Board. Quarterly reports include additional information, such as detailed target-performance comparisons, and follow a similar process. Quarterly reports are submitted to the Supervisory or Advisory Board of each Group company and a consolidated report is submitted to the Supervisory Board of voestalpine AG.

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

Compliance with the internal control system and its quality is monitored on an ongoing basis in the form of audits at the Group company level. The Internal Audit department works closely with the responsible Management Board members and managing directors. The Internal Audit department reports directly to the CEO and submits reports periodically to the Management Board of voestalpine AG and, subsequently, to the Audit Committee of the Supervisory Board.

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

Disclosures on capital, share, voting, and control rights and associated obligations

As of March 31, 2014, the share capital of voestalpine AG amounts 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% of the Company's share capital. Oberbank AG, Linz, holds more than 5% (and less than 10%) a Norges Bank (Norwegian Central Bank) holds more than 4% (and less than 5%) of the Company's share capital.

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

With regard to the Management Board's powers that are not derived directly from applicable statutes, such as the purchase of the Company's own shares, authorized or contingent capital, reference is made to item 17 (Equity) of the notes to the consolidated financial statements 2013/14.

The hybrid bond issued in October 2007 with a current volume of EUR 500 million, the hybrid bond issued in March 2013 with a volume of EUR 500 million, EUR 500 million fixed-interest securities 2011–2018, EUR 500 million fixed-interest securities 2012–2018, the promissory note loan that was issued in the fall of 2008 and partly extended in November 2012 in the amount of EUR 169.5 million, the promissory note loan that was issued in May 2012 in the amount of EUR 400 million, OeKB (= Oesterreichische Kontrollbank) equity financing in the amount of EUR 83 million as well as the syndicated loan executed in November 2011 in the amount of EUR 800 million (a EUR 400 million loan to consolidate liquidity requirements for investments and repayments, which was drawn in the business year 2012/13, and EUR 400 million as a revolving credit facility to ensure liquidity), and the EUR 250 million loan granted by the European Investment Bank contain so-called change-of-control clauses. With the exception of the hybrid bond, according to the terms of these financing agreements, the bondholders or the lending banks have the right to demand redemption of their bonds or repayment of their loans if control of the company changes. Under the terms and conditions of the hybrid bond issue, the fixed interest rate (interest rate during the fixed-interest periods) and/or the margin (interest rate during the variable interest periods) go up by 5% 61 days after a change in control occurs. voestalpine AG has the right to call and redeem the bonds no later than 60 days after a change in control. According to the terms and conditions of the aforementioned bonds and financing agreements, control by voestalpine AG changes when a controlling interest within the meaning of the Austrian Takeover Act (Übernahmegesetz) is acquired by another party.

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

Outlook

While the reality of 2013 was significantly weaker than even world-famous experts anticipated at the beginning of the year, for the first time since "the crisis," 2014 is expected to see not only a continued consolidation in those regions that are most important for the global economy, but increasing momentum in economic growth. The main reasons for this heightened optimism are progress in Europe in the economic restructuring of the nations in Southern Europe and, to a lesser degree, Central Europe as well, a sound upwards trend in economic growth in North America, stabilization of Chinese economic growth at a level of around 7% annually, and the possibility that, after the recent parliamentary elections, India will again return to a trajectory of growth, at least in the medium term. Growth prospects in Brazil and Russia, however, are expected to remain limited, at least in the short term. As far as Russia is concerned, uncertainty as to possible additional sanctions is another factor that can impact its prospects. The fact that the global economic forecasts—in contrast to the previous year—have been revised upward numerous times in recent months also points to growing optimism with regard to the development of the global economy.

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.

Indications of future demand from the most important customer industries point to a development that ranges from stable to moderately positive for the year. For example, signals from the construction and construction supply industries in Europe are conveying the prospect of recovery for the first time in years. In the USA, this area is significantly stronger than in recent years and while China is not showing additional growth, this sector is stable at a solid level.

While the overseas automobile industry reported increasing sales in the past year, the European automotive sector has joined this upward trend in recent months, increasingly across the entire range from high-end cars to sub-compacts.

As was the case in 2013, the energy sector is expected to remain the weakest of the major industrial sectors in 2014 as well. Apart from a largely stable development in the oil and natural gas exploration sectors, the energy transport segment (oil and natural gas pipelines) is expecting only a slight recovery in the form of execution of individual projects, some of which had been postponed multiple times. A more broad-based revival in this sector seems unlikely in 2014 as well. The same applies to the conventional energy generation segment, where—with the exception of China—a noticeable uptrend does not appear to be forthcoming from today's perspective. The main reason for this critical development is, on one hand, continuing uncertainty about the form and impact of the energy transition (particularly

in Europe) and, on the other, the weak financing capabilities of individual economies with a high demand for oil and gas. In contrast, the alternative energy sector continues to enjoy a positive development, however, the cutbacks in subsidies in many countries are increasingly impacting investment activity.

The consumer goods, white goods, and electrical industries are not expecting major changes and are anticipating a solid level of demand in 2014 as well. The agricultural machinery sector continues to experience good economic conditions and the mechanical engineering sector has seen an increase in demand in recent months.

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

Against this backdrop, the following development appears likely for the voestalpine Group in the business year 2014/15:

■ Steel Division

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

■ Special Steel Division

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

■ Metal Engineering Division

Full capacity utilization with a steady level of demand and stable or slightly declining prices in some business segments, albeit at a solid level.

■ Metal Forming Division

Almost full capacity utilization with a mostly positive level of demand; new, international production sites create opportunities for additional revenue and earnings after initial challenges have been overcome.

Due to its special strategic position as a quality and technology leader in the production of high-end steel products, combined with its program to optimize efficiency, costs, and earnings to the tune of EUR 900 million over the next three years, the voestalpine Group anticipates maintaining its earnings leadership in 2014/15 as well.

Against the background of an economic environment that is stabilizing, the Group is anticipating an operating result (EBITDA) and profit from operations (EBIT) in the business year 2014/15 that will be somewhat above the past business year's level.