Report of the Management Board

Management Report 2011/12

This Management Report also constitutes the voestalpine Group Management Report as we make use of the provision of Sec. 267 (4) of the Austrian Commercial Code (Unternehmensgesetzbuch, UGB), which permits the consolidation of these two reports.

Market environment

Development of the global economy

With the outbreak of the 2008 financial and economic crisis, the global economy entered into a generally unstable phase that has also been very inconsistent with regard to the individual economic regions. In the past business year, the voestalpine Group could not escape the effects of this environment full of ongoing challenges.

While in the first phase of the business year 2011/12, a feeling of optimism prevailed in most of the major customer industries and regions with regard to the economy, by the fall of 2011, the markets were signaling increasing nervousness and heightened caution both with regard to economic expectations and general order patterns.

With the first signs of a slight cooling of the momentum in some important growth regions, particularly China and Brazil, which had been long expected, uncertainty regarding the further development of the global economy rose dramatically even though the growth rate in both countries is still comparatively high. At the same time, the economy in North America performed better than anticipated, while Europe's overall economic situation—with the exception of a few, export-oriented countries—became weaker in the course of the year and trended most recently toward recession.

The situation was complicated by the fact that Europe's political leaders have not been able to stabilize Greece's economy and, at the same time, the debt crisis spread increasingly to Italy and especially Spain, a factor that additionally aggravated the economic and financial instability throughout Europe.
Against this backdrop, the real economy in Europe nevertheless was comparatively robust for the major part of the year due to the stable, positive development in most of the Western and Northern European economies.

Development in the most important customer industries

The performance of the customer industries that are particularly important for the voestalpine Group was mostly solid until late summer of 2011 when a very inconsistent development began.
Demand in the European automobile industry, which is the largest customer segment, responsible for about one third of the Group's revenue, was still stable in the first half of the business year 2011/12. While the premium automobile manufacturers have thus far remained unaffected by the consumer restraint that has been noticeable since the fall of 2011, a significant erosion of demand has been evident in the volume segment during the course of the year so that capacity utilization in some automobile plants has been declining.
Performance in the traditional energy sector (oil, gas, water) was stable at a high level in the business year 2011/12, while the trend in the alterna-

tive energies (wind, solar) segment, which had been positive for years, came to a standstill.
The mechanical engineering sector, which is traditionally strongly export-driven, performed solidly throughout the course of the year; the performance of the aviation industry, whose share in revenue generation is still small, but which is growing in importance in the Group's high-tech segment, had a similar trajectory.
The development in the white goods and consumer goods industries, however, was less satisfactory, with these industries being unable to continue the previous year's positive trend with the same degree of momentum; as compared to other sectors, these two segments were more seriously impacted by the economic slowdown during the year.
The situation of the construction industry is stable, but it has remained unchanged at a moderate level. Initial signs of a recovery in Eastern Europe in the early part of the business year proved to be short-lived. In any case, there is no expectation of a sustained structural recovery, particularly due to the restrictions imposed by the strained situation of public finances in many European countries.

In the railway infrastructure segment, demand for turnouts and special rails remained stable at a good level throughout the business year 2011/12. The standard rail segment, however, has come under heavy pressure Europe-wide and its development has been negative due to growing capacities, falling prices, and extremely aggressive competition. As the prospects are not promising, even in the long term, the voestalpine Group decided in the spring of 2012 to withdraw from this segment. Concurrently, international expansion of our leading position in the special rails sector is being continued.

The impact of the economic environment in the business year 2011/12 on the individual divisions of the voestalpine Group was markedly different. While the Special Steel Division, the Metal Engineering Division (until March 31, 2012 Railway Systems Division), the Profilform Division, and the Automotive Division, which are strongly oriented toward downstream manufacturing, experienced only the customary seasonal fluctuations and were able to stay at least at their previous year's level both with regard to revenue and profit, the steep rise in volatility with regard to volumes, prices, and raw materials costs in the classic steel sector inevitably had an effect on the Steel Division.

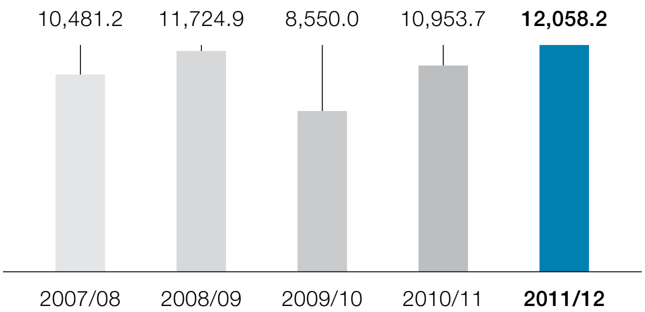
Development of the steel industry

After an increase in the worldwide crude steel production by 7% to 1,491 million tons in the calendar year 2011, which was due exclusively to strong growth in the demand for steel outside of Europe, production in the first calendar quarter 2012 remained constant—including globally—for the first time in quite a while.

On one hand, this development reflects the current uncertainty regarding the extent of continued

Revenue of the voestalpine Group

In millions of euros



growth of some of the major Asian economies (China, Korea, Japan) and, on the other, it mirrors the demand in Europe that has been considerably reduced since the fall of 2011, resulting in diminishing capacity utilization in most of Europe's steel plants. A number of manufacturers in the commodity segment tried to counter this trend and stabilize their own production by provoking a heated price war on the spot market, but this attempt remained unsuccessful. This even exacerbated the negative price spiral, which had begun in the fall of 2011 with declining raw materials prices and customers who demanded corresponding discounts.

Only North America had a positive development throughout 2011, remaining unaffected by the global turbulence; due to the economic momentum in the USA, the North American steel industry was able to retain its high growth rates of the previous year even in early 2012.

Business performance of the voestalpine Group[1]

Revenue and operating result

Against the backdrop of an overall economic environment that was challenging in all respects, the voestalpine Group's revenue in the business year 2011/12 nevertheless reached EUR 12,058.2 million—a new record. Compared to the previous year (EUR 10,953.7 million), this equals revenue growth of 10.1%, with all the divisions contributing to the increase.

In relative terms, the biggest gain was reported by the Automotive Division at 17.7%. Even the Steel Division, which was operating in a particularly difficult market environment, recorded significantly higher revenue (a plus of 7.6%).

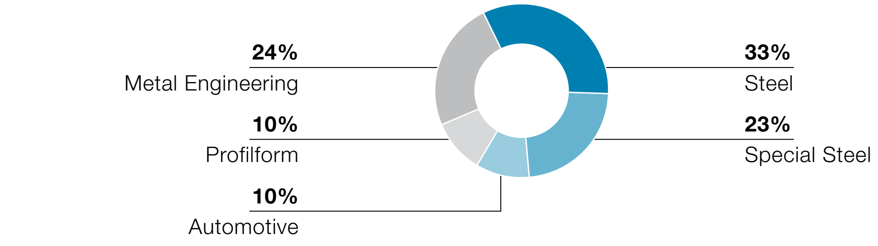
In terms of earnings, however, last year's figure remained out of reach. On one hand, this was due to the fact that the Steel Division's earnings declined because of the situation of the economy and, on the other, because of the relevant factor that both EBITDA and EBIT in the Metal Engineering Division (until March 31, 2012 Railway Systems Division) were severely impacted by negative non-recurring effects (provisions for the closure of rail production in Duisburg and for the antitrust proceedings relative to railway superstructure material).

Nevertheless, the voestalpine Group reported EBITDA totaling EUR 1,301.9 million and an EBITDA margin of 10.8% in the business year 2011/12. Compared to the previous year (EUR 1,605.6 million), this corresponds to a drop in

[1] In accordance with IFRS, all figures after application of the purchase price allocation (ppa).

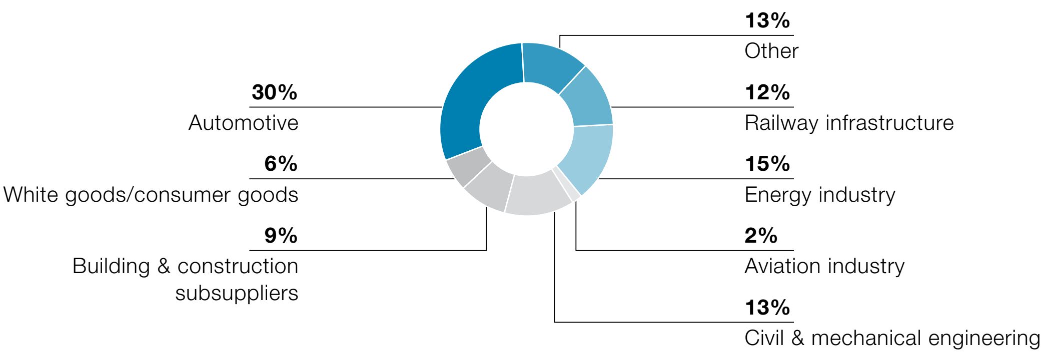
Revenue by divisions

As percentage of total divisional revenue
Business year 2011/12



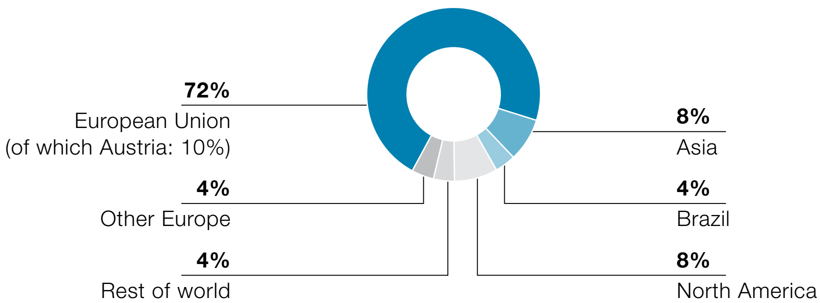
Revenue by industries

As percentage of Group revenue
Business year 2011/12



Revenue by regions

As percentage of Group revenue
Business year 2011/12



EBITDA (in absolute figures) of 18.9%. Without the non-recurring effects amounting to EUR 205.0 million, however, EBITDA was EUR 1,506.9 million and the EBITDA margin was 12.5%, which is only slightly below last year's level.
The picture is similar with regard to the operating result: taking the non-recurring effects into account, EBIT is EUR 704.2 million, 28.5% below the previous year's figure (EUR 984.8 million). Without the impact of the non-recurring effects in the amount of EUR 205.0 million, EBIT in the business year 2011/12 is EUR 909.2 million, only 7.7% below the previous year's earnings.

Measured against the development of the overall market, this relatively minor decline in earnings is primarily due to the stable performance of the processing divisions (Special Steel, Metal Engineering, and Automotive), while the Steel Division's profit from operations was substantially below the previous year's figure because of the difficult market environment, particularly in the third quarter of the business year.
In this context, it should be pointed out that the final quarter showed a more positive momentum than the previous quarter, including in the Steel Division, thus enabling a return to full capacity utilization. Nevertheless, viewing the Group as a whole, earnings in the second half of 2011/12 lagged behind both the first half of the year and the comparative period of the previous year.
Overall, in the business year 2011/12, due to its long value chain and leading position with regard to technology, innovation, and quality compared to its competition and the significantly lower level of volatility in its earnings performance during the year, the voestalpine Group ultimately experienced only a slight decline of the result (without taking the non-recurring effects into account) compared to the previous year.

Profit before tax and profit for the period, earnings per share

Compared to the previous year, profit before tax fell by 35.4% going from EUR 781.0 million to EUR 504.4 million. Without taking the non-recurring effects into account, however, the decline was only 9.2% down to EUR 709.4 million. At 18.1%, the tax rate for the business year 2011/12 was atypically low due to non-recurring effects from the railway supply sector, primarily associated with the closure of the plant in Duisburg and the antitrust proceedings. This results in profit for the period[1] of EUR 413.3 million, a decline of 30.5% compared to the previous year (EUR 594.6 million) and earnings per share (EPS) of EUR 1.98 (previous year: EUR 3.04).

Proposed dividend: EUR 0.80 per share

Subject to the approval of the Annual General Shareholders' Meeting of voestalpine AG on July 4, 2012, a dividend of EUR 0.80 per share will be paid to shareholders. This is the same as the dividend paid for the last business year. Based on the earnings per share (EPS) of EUR 1.98, the pay-out ratio is 40.5%, a significant increase compared to the previous year's ratio of 26.3%. Based on the average share price in the business year 2011/12 of EUR 27.78, the dividend yield is 2.9%.

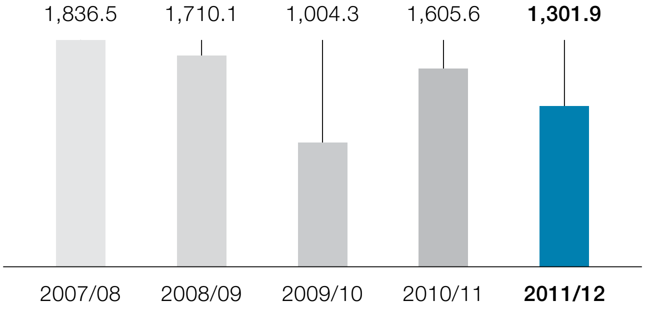
Gearing continues to fall

The debt situation of the voestalpine Group continued to ease up in 2011/12. We were able to reduce the gearing ratio (net financial debt as a percentage of equity) from 57.8% to 53.5% compared to the reporting date of the previous year. On one hand, this was made possible by equity growth, which went from EUR 4,691.1 million in the previous year to EUR 4,836.3 million as a result of higher earnings, a plus of 3.1%; on the

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

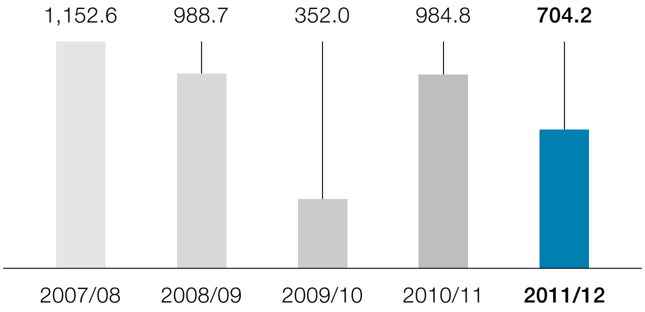
EBITDA – Profit from operations before depreciation

In millions of euros



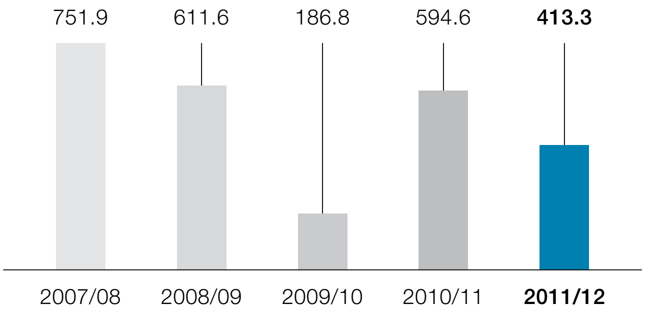
EBIT – Profit from operations

In millions of euros



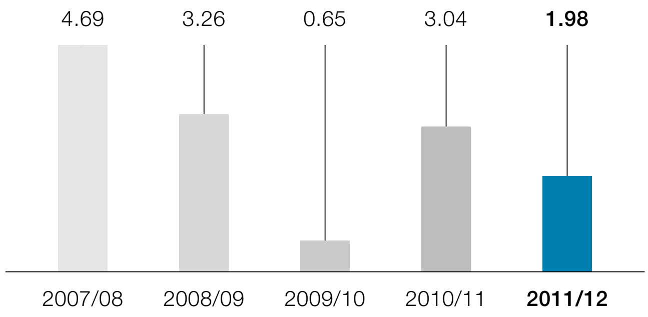
Profit for the period

In millions of euros



EPS – Earnings per share

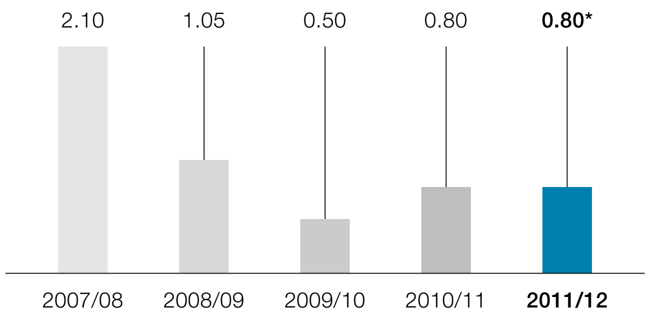
In euros



Dividend per share

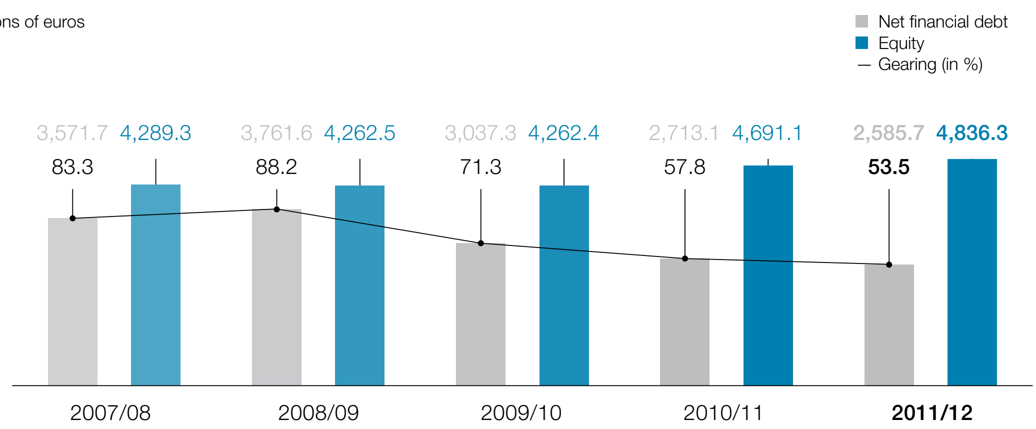
In euros

* As proposed to the Annual General Shareholders' Meeting.



Net financial debt – Equity – Gearing ratio

In millions of euros



other hand, positive cash flow reduced the net financial debt as of the end of March 2012 to EUR 2,585.7 million. This corresponds to a reduction of the debt by 4.7% from EUR 2,713.1 million, the figure at the end of the previous business year.

Cash flow

In the business year 2011/12, cash flow from operating activities was EUR 856.5 million, a decline of 10.6% compared to the previous year's figure of EUR 957.6 million. The reasons for this decline can be found in the somewhat weaker operating performance on one hand and, on the other, in the fact that working capital rose by EUR 137.8 million. This increase is primarily due to significantly higher revenue. In relative terms, working capital was actually reduced slightly to 16.9% of revenue in comparison to 17.4% in the previous year.

At EUR 478.6 million, negative cash flow from investing activities rose in the business year 2011/12 by 36.9% compared to the previous period (EUR 349.7 million). This was caused mainly by the fact that, after the consolidation phase during recent years, investments in property, plant and equipment and intangible assets were up again. Nevertheless, investments were lower than depreciation (EUR 597.7 million) in this business year as well.

At EUR 933.7 million, negative cash flow from financing activities went up significantly compared to the previous year's figure of EUR 407.4 million. The background of this development lies on one hand in the higher dividend payment in June 2011 compared to the previous year and, on the other, to scheduled repayments of loans and debt securities.

Quarterly development of the voestalpine Group

In millions of euros					BY		
	1st quarter 2011/12	2nd quarter 2011/12	3rd quarter 2011/12	4th quarter 2011/12	2011/12	2010/11	Change in %
Revenue	3,051.5	2,926.2	2,899.5	3,181.0	12,058.2	10,953.7	10.1
EBITDA	462.9	361.3	293.8	183.9	1,301.9	1,605.6	–18.9
EBITDA margin	15.2%	12.3%	10.1%	5.8%	10.8%	14.7%	
EBIT	317.6	213.8	145.0	27.8	704.2	984.8	–28.5
EBIT margin	10.4%	7.3%	5.0%	0.9%	5.8%	9.0%	
Profit before tax (EBT)	271.8	171.5	90.5	–29.4	504.4	781.0	–35.4
Profit for the period	209.6	136.5	65.3	1.9	413.3	594.6	–30.5
Employees (full-time equivalent)	45,161	45,944	45,144	46,473	46,473	45,260	2.7

Important events in the course of the year

Streamlining of the Group's structure

In keeping with the Group's long-term growth strategy, in December 2011, the Supervisory Board of voestalpine AG unanimously set the course for a more efficient Group structure as well as another generational change in the Group's Management Board. The core of the decision is the merger of the previously independent Automotive and Profilform Divisions to create the new Metal Forming Division. (Regarding the changes in the Management Board of voestalpine AG associated with this step, we refer to the "Corporate Governance" chapter.)

Merging the two divisions enables us to attain significant synergy effects. There already was a close collaboration between the two divisions in the research and development sector, which will be even more efficient in the future. The new division's position in the market will gain competitive advantage from the merger as it enables more unified and coordinated care of important customer segments—particularly the automobile industry and the energy sector. Due to its stronger joint global presence, it is projected that the new division will rapidly expand its market position.

Closure of TSTG Schienen Technik

On March 13, 2012, the Management Board of voestalpine AG decided to close down rail production at the TSTG Schienen Technik GmbH & Co KG ("TSTG") site in Duisburg. The reason for the closure is the lacking cost-effectiveness of the site, due on one hand to its inability to provide its own pre-materials and, on the other, to massive overcapacity in the standard rail sector in Europe, which has resulted in permanent pressure on prices. Against this backdrop, TSTG fought a losing battle against declining capacity utilization in the past years and, most recently, had posted substantial losses. The closure will take place at the earliest at the end of 2012. All existing customer orders will be carried out as contractually agreed. The management of TSTG has begun negotiations with employee representatives regarding a social compensation plan. Possibilities to employ staff in other Group companies are also being examined.

BÖHLER-UDDEHOLM squeeze-out – Review of the cash settlement

In the proceeding to review the cash settlement for the minority shareholders of BÖHLER-UDDEHOLM Aktiengesellschaft, of which a majority stake was acquired in 2007, a settlement was reached on November 24, 2011. In this settlement, voestalpine AG undertakes to make a subsequent payment of EUR 6.50 per share plus interest in the amount of 5.19% from June 24, 2008 on (date of the squeeze-out resolution in the Annual General Shareholders' Meeting of BÖHLER-UDDEHOLM Aktiengesellschaft) to the shareholders affected by the squeeze-out. Furthermore, voestalpine AG undertook to pay the cost of the proceeding and the attorneys' fees of the petitioners. The settlement required the approval of the appropriate court in order to become effective. This approval was given in early

May 2012 und immediately following this approval, the subsequent payment plus interest was made to the former minority shareholders of BÖHLER-UDDEHOLM Aktiengesellschaft. Provisions for the total cost of the cash settlement were already recognized in full in the first half of the business year 2011/12. In the present annual financial statements, the base amount was offset directly against equity; the interest costs associated with the settlement are recognized in the income statement under finance costs.

Antitrust proceedings relative to railway superstructure material

Due to agreements violating antitrust laws regarding the sale of rails and other railway superstructure materials in Germany, the Group submitted a self-report to the German Federal Cartel Office (Bundeskartellamt) in the spring of 2011 on behalf of the affected Group companies that are doing business in this sector. The German Federal Cartel Office then initiated proceedings and in May 2011, conducted searches of the premises of both Group companies and external companies. The comprehensive official investigative proceedings are currently still ongoing.

On March 13, 2012, the Management Board of voestalpine AG decided to form provisions for these antitrust proceedings as well as for the closure of TSTG Schienen Technik GmbH & Co KG. From today's perspective, this provision in the amount of EUR 205 million covers all financial risks associated both with these antitrust proceedings and the closure of rail production in Duisburg.

Important events after the reporting date

We refer to the information in the notes to the consolidated financial statements under Item 30.

Investments

The investment activities of the voestalpine Group in the business year 2011/12 were significantly more dynamic than in the previous year: due to increases in all the divisions, total investment volume rose by 35.9% from EUR 422.7 million to EUR 574.6 million, of which EUR 559.9 million was spent for property, plant and equipment, EUR 12.8 million for intangible assets, and EUR 1.9 million for equity holdings, securities, and other financial assets.

The Steel Division, to which 34.4% of the Group's investment volume is attributable (EUR 197.8 million), increased its investment expenditures by 29.6% compared to the previous year (EUR 152.6 million). The focus was the "L6" investment program at the Linz site, which has been ongoing for a number of years and which is concentrating on the long-term development of new product types and qualities. After the successful completion of the last major projects—renovation of the wide strip mill and construction of the new continuous casting facility CC7 (both were commissioned in the summer of 2011) as well as the construction of a new melting pot gas holder (spring 2012)—this investment program has now largely been completed. The completion of the last still outstanding individual project, the commissioning of the new $DeNO_X$ system at sintering band 5, is planned for December 2012; work on this system, which is necessary to optimize the energy cycle and reduce blast furnace emissions, is on schedule.
Furthermore, significant investment projects were realized on schedule in the pre-processing, Steel Service Center, and foundry segments; it is particularly noteworthy that the new Steel Service Center in Giurgiu, Romania (investment expenditure of about EUR 20 million) is nearing completion.

Compared to the previous year's figure of EUR 87.9 million, the Special Steel Division boosted its investments by 46.4% to EUR 128.7 million, a 22.4% share of the Group's total investment volume. This division's investments focused mainly on removing production capacity bottlenecks and shortening throughput times in production. This included primarily the increase in capacity of facilities for the production of electro-slag remelted (ESR) grades and powder-metallurgical steels. Within the scope of a two-year investment project with a volume of around EUR 16 million at the Kapfenberg (Austria) site, a new production hall is being built, a second hot isostatic press (HIP) is being installed, and the melting and atomization capacity is being increased by installing a larger furnace vessel with a quick-change device. Additionally, investments in the sales sector were focused on the expansion of customer service. These investments particularly affect the mechanical processing of special steel, where the German market is a focal point.

The investment volume in the business year 2011/12 in the Metal Engineering Division (until March 31, 2012 Railway Systems Division) also surpassed the previous year's figure substantially with a gain of 34.5%, going from EUR 96.1 million to EUR 129.3 million (this figure corresponds to 22.5% of the Group's investment expenditure). The major individual investments were already successfully completed in the previous years so that the investments made in the past business year were limited to numerous smaller projects. At the same time, the preliminary work for the relining of blast furnace 4 in Donawitz (Austria) is already in full swing. This project will be implemented on schedule in the summer of the business year 2012/13.

In the Profilform Division, stage 1 (rolling mills, longitudinal slitting line, annealing systems, and grinding machines) of the investment project in Kematen, Austria, in the precision strip sector was put into operation successfully. Production in the new facilities is on track with only some optimization work necessary. The infrastructure of stage 2 (strip production, especially for tempered strips), has already been completed. The total investments of the Profilform Division in the business year 2011/12 were EUR 55.4 million; compared to the previous year (EUR 52.3 million), this corresponds to an increase of 5.9% and a 9.6% share of the Group's total investment expenditure.

At EUR 54.4 million, the Automotive Division almost doubled its investment volume in the business year 2011/12 compared to the previous year (EUR 28.0 million), utilizing around 9.5% of the Group's total investment resources. In addition to minor updates to machines for the manufacture of tube components, the division has now also begun to produce stamped parts in Linz (Austria). Furthermore, two servo presses and the necessary appurtenant infrastructure were put into operation in the past business year. As some of our strategic key customers moved forward quickly on globalization projects, in 2010/11 projects were started in China, the USA, and South Africa that will result in extensive investments in these countries in the next two years due to the growing trend requiring complex components based on hot forming technology.

Acquisitions and divestments

In the business year 2011/12, only two smaller yet strategically significant acquisitions were concluded, both in the turnout technology segment of the Metal Engineering Division (until March 31, 2012 Railway Systems Division).

One was the acquisition of a 71.0% share of the German company LASA Schienentechnik GmbH (headquartered in Bremen) by voestalpine BWG GmbH & Co KG; this company specializes in the maintenance and welding of tram turnouts and rails, thus enabling voestalpine to expand the segment that services mass transit. It was included in the consolidated financial statements for the first time in the business year 2011/12.
The other acquisition was the purchase of all assets and know-how of the Dutch company Baas B.V. for the development and production of wheel diagnostic and axle recognition systems based on fiber optic technology.
Integration of both activities into the turnout technology unit proceeded according to schedule.

Employees

By the end of the business year 2011/12, the voestalpine Group had 41,649 employees (excluding temporary employees and apprentices). This corresponds to an addition of 949 employees, or a 2.3% rise over the comparison value of March 31, 2011 (40,700). Taking the 1,263 apprentices and 4,305 leased employees into account, the total number of staff as of the end of March 2012 equals 47,217 employees.

The development of the workforce will be depicted on the basis of this calculation for the last time in the present financial report. To achieve better data comparability with those of other international corporations, and to establish a greater explanatory significance of the long-term employee development in the Company itself, we are shifting to the "full-time equivalent" indicator (FTE) starting in the business year 2012/13. With the "FTE" indicator, one full-time employee corresponds to a full-time equivalent of one; part-time employees are taken into account on a prorata basis corresponding to their working hours. This approach results in a workforce level of 46,473 employees in full-time equivalence at the voestalpine Group as of March 31, 2012, which corresponds to a 2.7% increase compared to the prior year (45,260 employees).

The Group's own personnel level on March 31, 2012 remained below the pre-crisis level on September 30, 2008 (by 3.2%, or 1,384 employees).

Basically, this is attributed to the fact that to a great extent, human resource needs continue to be covered by temporary employees so that the Group can respond as flexibly as possible to the periodic increased volatility in demand fluctuations. The number of temporary employees consequently increased in the year under review by 6.7%, from 4,036 to 4,305 person years.

The ratio of employees working in Austria to those working abroad remained unchanged in the business year 2011/12. At 53.5% (22,297 individuals), the majority of the employees work at corporate locations outside of Austria; thus, 19,352 employees or 46.5% are assigned to domestic sites.

In addition, the voestalpine Group trained 1,263 apprentices worldwide as of March 31, 2012 (36.4% thereof at international sites). Compared to the previous year (1,330 apprentices), this figure corresponds to a 5.0% decline, or 67 fewer youths.

Steel Foundation in Austria

The Steel Foundation ("Stahlstiftung"), established in 1987, provides former voestalpine employees from virtually every Austrian Group company with the opportunity to complete further training and continuing education for professional re-qualification or advanced qualification for a term of up to four years. Besides cushioning the social impact of job loss, this service is the best possible means of assisting with and supporting the search for new employment. In the business year 2011/12, 85% of job-seeking participants actually found a new job with the aid of the Steel Foundation.
On March 31, 2012, there were 506 individuals being assisted by the Steel Foundation, which is approximately 18.3% less than the year before. The Steel Foundation also makes itself available to external companies, which were represented most recently by 36.4% of participants.

Educational leave in Austria

During the financial crisis, the Steel Foundation organized, and for the most part financed. "educational leave activities" for the advanced qualification of employees, as an additional service limited to a 12-month maximum. The chance to enroll in this program was closed in December 2010, once the business cycle normalized; by the beginning of calendar year 2012, the last participant had graduated from this program. At the end of the educational or training program, the employee is typically guaranteed the chance to return to the parent company. Upon completion, 97% of the participants resume working at their respective company.

Employee shareholding scheme

In the fall of 2011, the voestalpine Group celebrated the ten-year anniversary of its employee shareholding model, which has been held in high regard since its inception. Initiated in Austria, the model has since been adapted to subsidiaries in Great Britain, Germany, Poland, Belgium, and the Netherlands. The gradual integration of additional businesses and countries is planned for the current business year.
As of the end of the business year 2011/12, a total of 22,400 employees of voestalpine AG are participating in this scheme through the voestalpine Mitarbeiterbeteiligung Privatstiftung; they hold about 20.1 million shares. With a holding of 11.9% of the share capital, employees are the second largest core shareholder of voestalpine AG through their general voting rights block.

About 1.6 million private shares owned by current and former employees (this corresponds to about 1% of the voting shares) are also managed by the voestalpine Mitarbeiterbeteiligung Privatstiftung. Collectively, nearly 13% of share capital in voestalpine AG is currently owned by its employees; this figure remained virtually unchanged from the previous year.

Focus of Human Resources activities

Apprentice training

The voestalpine Group is committed to its own apprentice training and has consistently maintained the highest standards for it, even during economically challenging periods. Currently the activities related to career training of youth, both in Austria and internationally, are continuing; in doing so, the Group emphasizes communications that are appropriate for the target group. Thus, the Group will install its own website that bundles targeted data about all available apprenticeship occupations, for example, or about all locations that offer training. Social media represents another channel of communications of consistently growing importance to young people, and it is currently a focal point in communications development.

Development of executives

In the year under review, 121 executives of the Group from 17 countries participated in the Group-wide professional development program for executives known as "value:program." The program was expanded by a training module for top management, called "visionstage," which puts the spotlight on the long-term strategic challenges they face. In recognition of the innovative design of this module, the Austrian Human Resources Award was bestowed on voestalpine AG, which was also nominated for the European Human Resources Award.

High mobility pool

Training under the "high mobility pool," which was redesigned last year particularly in light of accelerated internationalization and updated content, will be continued thanks to the extraordinarily positive response it received. This pool provides "high profile" candidates from Europe who have a few years of professional experience with the opportunity to get to know the voestalpine Group through definitive projects in the individual divisions and departments.

Personnel marketing

For the high standards of its HR department and the intensified personnel marketing efforts of the Group, voestalpine AG was recognized with a series of awards. According to Career's Best Recruiters Study 2011/2012, the Company once again came in first place in the iron/metals industry, was bestowed the "Golden Seal" award and, in addition, could lay claim to the top ranking even in comparison to Germany. Altogether, 500 Austrian and 500 German companies in 22 industries were studied and evaluated in regard to the online and offline corporate presence and the feedback obtained from applicants. The jury specifically emphasized the online applicant portal of the voestalpine Group, which is currently used by companies from Austria, Germany, and the Netherlands, and which will gradually be expanded to other countries.

Raw materials

The year under review was marked by sharply escalating price volatility among the raw materials used for steel production.
After massive price hikes starting in the business year 2010/11, particularly for iron ore—indeed, prices soared by 70% just in April 2010—metallurgic coal also became more expensive at the start of the business year 2011/12, primarily due to the flooding in Northeastern Australia and the temporary supply shortage triggered by this event.
In keeping with the cyclical decline in the demand for steel, by the fall of 2011, prices fell by up to 25% for coke, coking coal, and, ultimately, for iron ore as well, thus entering into a generally more volatile phase. By contrast, price trends for scrap were considerably more moderate over the course of the year. All in all, raw materials prices as a whole remained at high levels in the business year 2011/12.

On the producer side, the trend toward ever shorter pricing periods for ore and coal—up to current daily prices—also continued unabated. Meanwhile, however, steel companies have generally succeeded in structuring contracts with customers in a suitably flexible manner, and are thus doing a better job than in the past at hedging against short-term price fluctuations for raw materials.

Over the medium to long-term, prices for the most important raw materials are expected to progress at a continued high level, yet one that is markedly below the previous peak values, especially for coal, coke, and iron ore. Driven by the demand and price conditions of the past several years, on the supply side, both established and new suppliers have tapped into extensive additional mine capacities that will gradually go into operation over the next few years, on the one hand. On the other hand, a number of steel companies have greatly accelerated their reverse integration at the same time. Both factors are expected to have a dampening effect on prices over the medium term.
The long-term strategy of the voestalpine Group aims for a continued consistent diversification of sourcing options in all raw materials categories, in order to prevent dependencies on individual suppliers. There are no plans that reach beyond the current extent of the reverse integration process.

Research and development

The expenses for research and development in the business year 2011/12 amounted to EUR 116.7 million. Due to ongoing improvements in efficiency, including in the area of R&D organization, actual expenditures remained significantly below the available R&D budget of more than EUR 120 million, while all of the planned projects were consistently implemented.

For the current business year 2012/13, the voestalpine Group has a research and development budget of EUR 132.3 million; this corresponds to another increase of the funds being made available for technology and innovation by 9.4%, equaling the highest figure by far in the history of the company. In the long-term analysis, the voestalpine Group raised its R&D expenditures during the past ten years by an average of 11% per year.

The research ratio of the Group (share of R&D expenses of total sales) at the end of the business year 2011/12 was 1.0% (previous year: 1.0%), the R&D coefficient (R&D expenditures measured by economic value added) was 2.61% (previous year: 2.55%).

Conforming to the Group's strategic direction, the focus of research and development is on the most sophisticated product and materials solutions for applications in the mobility and energy sectors. The top priority is the development of innovative complete solutions that guarantee optimum customer benefit while reducing life cycle costs.
One of the main strengths of the Group is the combination of all the necessary competencies and steps that create added value; for example, materials development is typically accompanied by the development of processing technologies (such as forming or joining processes), tool steel grades, and welding filler materials.

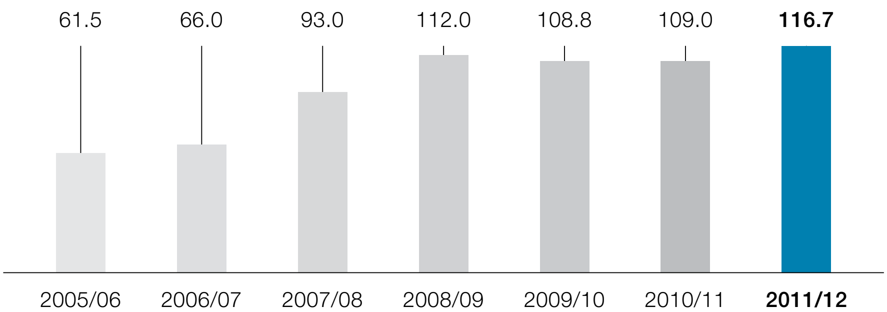
Current research and development highlights

One of the most significant innovations that has resulted from our R&D work is without a doubt the phs®-ultraform technology, which was presented to the broad professional community for the first time at the Geneva Motor Show in the spring of 2012. The acronym "phs" stands for "press hardening steel." It is used primarily for safety-relevant automobile components that are lightweight but also extremely high-strength (up to 1,800 megapascal), offering cathodic corrosion protection and providing the possibility of processing blanks with various combinations of strength and thicknesses ("tailored property parts"). Thus, phs-ultraform is making a significant contribution to lightweight automobile construction, which means that it is ideally suited for applications in electric mobility. After the already

Research expenses for the voestalpine Group

In millions of euros

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



very successful market launch of the "indirect" manufacturing process, in the business year 2011/12, another significant breakthrough was made that now enables the production of these components by way of the "direct process."

The zinc-magnesium coating of steel strip and sections, which has already been successfully adopted in the construction sector, is making an outstanding contribution to the preservation of resources: by adding magnesium through alloying, the corrosion resistance of zinc surfaces is substantially improved, enabling a reduction of the thickness of the coating while retaining the same protective effect. Currently, this coating technology is being developed further for use in the automobile sector.

High-speed rails, which were newly developed on the basis of the special microstructure bainite, are currently in the intensive and lengthy phase of track and certification tests. Initial results thus far have shown zero defect operation as anticipated compared to the reference rails made of pearlite.

The voestalpine VAE Group, global market leader in turnout technology and last year's recipient of the “Best Service Provider of the Rail Industry” prize, received another international award in February 2012: the company received the highly respected “Middle East Rail Award” in the category “Most Innovative Use of Technology” for the development of a hot box and brake detection system that is particularly geared to desert climate conditions.

The goal of the ongoing Group project “Power plant 50plus,” another important R&D endeavor, is the improvement of the efficiency of thermal power plants. By using new and/or improved materials for power plant components, it is already possible to increase the efficiency of steam power plants from 42% to 52%. As is the case for the previously described mobility innovations, these developments are also largely technologically unique, cutting-edge developments, with the voestalpine Group the only company worldwide that is providing them in this form.

In the sector of renewable energies, the photovoltaic system for flat roofs developed by voestalpine Polynorm B.V. deserves mention. It was successfully launched on the market under the brand name “iFIX.” The system has an optimum structural shape, and its particular advantage is minimal assembly effort at the construction site.

The Profilform Division has met the demand for weatherproof tube cross-sections to be used as supports for photovoltaic installations by developing a cross-section made of coil-coated steel strip that has been optimized with regard to corrosion resistance; a patent has been filed. With the development and market launch of a system for mounting cross-sections without needing tools by Metsec plc (Great Britain), competitiveness has been considerably improved by reducing assembly effort.

The continued optimization of resource use in production continues to have a high priority in the Group's R&D activities. For example, a method was developed in the special steel plant in Hagfors (Sweden) to replace the alloy ferromolybdenum by less expensive additives, achieving the same effect but enabling a significantly higher yield.

Regarding the highlights of our global research and development collaborations with science partners, we refer to the presentations in previous letters to shareholders for the business year 2011/12.

Environment

The environment-specific investments of the voestalpine Group in the business year 2011/12 equaled approximately EUR 32 million[1] and were thus markedly above the last year's figure of EUR 20 million. The current expenses for the operation and maintenance of environmental protection systems of EUR 212 million exceeded last year's comparison value (EUR 194 million). Thus, in the business year 2011/12, the voestalpine Group spent around EUR 244 million (2010/11: EUR 214 million) for measures directly associated with environmental issues (including roughly EUR 10 million for CO_2 certificates).

Focus of environmental efforts in business year 2011/12

In the past business year, a series of environmentally relevant activities were implemented. The focus was placed in the areas of energy and raw materials efficiency, air and water emissions as well as waste prevention and recycling.

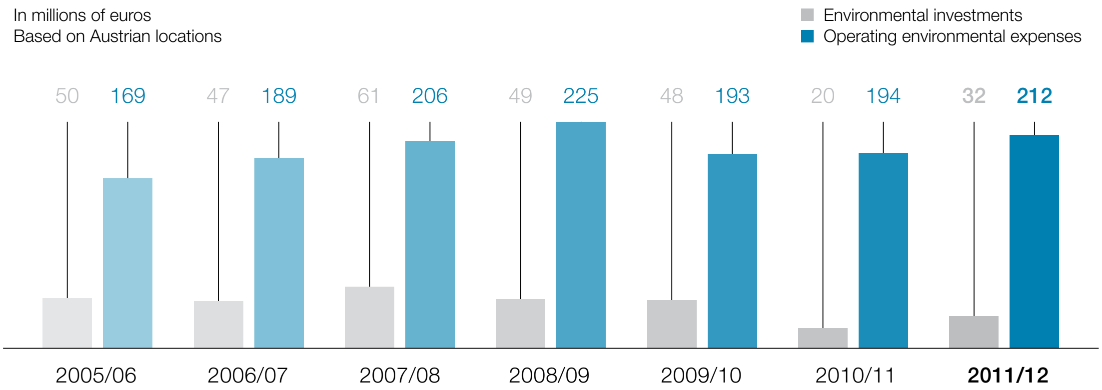
The environmental measures at the Linz site (Steel Division) specifically concern: improvement of coking plant gas extraction for recycling in the integrated facility; reduction of hazardous waste in the sinter facility area by roughly one-third; new plans to optimize water management and further reduce dust emissions in the entire production process. Moreover, in the foundry, the Group achieved a marked reduction of waste while simultaneously increasing raw materials efficiency. The installation of a second separation stage at the existing chromite sand separation system will reduce the future consumption of new sand by 10%.

In Hagfors, at the Swedish production site of the Special Steel Division, the Group achieved a substantial reduction of certain emissions (nitrogen oxide, sulfur oxide, and dust) following the transition from oil and liquid gas to natural gas as a source of energy, which is more environmentally sound. Among a series of further optimization measures, one activity merits special note: the retrofitting of a blast furnace to the new regenerative burner technology, which comes with both ecological and economic advantages. At the division's sites in Kapfenberg (Austria) and Villares (Brazil), the main focus was on comprehensive measures to reduce energy consumption in production.

In the Metal Engineering Division (until March 31, 2012 Railway Systems Division) at the Austrian site Zeltweg, the exhaust air from numerous welding and grinding processes is purified through the use of a new filter design, through which the filtered air can be recirculated back into the halls during the heating season. Through the up to 100,000 m^3/h of recirculated air, Zeltweg can overall save an annual 1,100 MWh of thermal heat. Thus, the Zeltweg site is predominantly heated by the district heating network—fueled by biomass—and by waste-heat utilization (in other words: the site is essentially CO_2-neutral).

[1] Based on Austrian locations, as these are responsible for the overwhelming majority of the Group's environmentally-sensitive emissions.

Environmental expenditures[1]



In the steel and welding technology segments of the Metal Engineering Division, additional measures were implemented in the past business year to reduce emissions.

The companies of the present Metal Forming Division placed a permanent operational focus on the additional increase in energy efficiency and air quality control measures. In addition, the companies continuously make significant contributions to the sustainable optimization of resource utilization through product development. For example, at the British site in Birmingham, new profiles were engineered for modular systems whose advantages are primarily in the considerable weight reduction, compared to the previously applied standard, and in the roughly 10% savings on material coatings.

Focus of environmental policy

The draft prepared by the European Commission in December 2010 on the allocation mechanism for CO_2 emission certificates that will apply for the period from 2013 to 2020 and that will be based on benchmark figures set by the EU has now become legally effective after the resolution was adopted by the EU Council of Ministers and the European Parliament on May 17, 2011. Consequently, the policy is being implemented natio-

[1] Based on Austrian locations, as these are responsible for the overwhelming majority of the Group's environmentally-sensitive emissions.

nally in Austria through a directive from the Austrian Ministry of Environment. However, the allocation mechanism as defined is being contested by the European steel association EUROFER and a number of businesses that are its members, including voestalpine AG. The relevant complaints that were brought before the European Court of Justice in July 2011 are in particular directed against the specific CO_2 emissions requirements that cannot be achieved with the current state of the art.

Over the long term, probably the most significant—and also the most sensitive—topic in Europe with regard to the future of Europe's most energy intensive industries is the "Roadmap 2050" that was outlined by the European Commission. The Roadmap envisions a largely carbon-free energy production and real economy in Europe by the year 2050. The exact delineation of the path to reduction for achieving this goal, and the evaluation of it at the industry level, are still pending. The European steel association EUROFER is joining in the related discussions, seeking foremost to prevent further intervention into the existing EU-certificates trading, which drives prices up, and to prevent the recent drastic intensification of the emissions reduction goals in the wake of the "Roadmap" discussions. Currently at the voestalpine Group, goals are being set and risks evaluated in detail. But possible long-term opportunities and potential are also being examined with regard to the strategic positioning of the Group (in relation to new, innovative materials and technologies, for example).

In regard to the topics already addressed in thorough detail in previous publications—Post-Kyoto/World Climate Conference 2011, Life Cycle Assessment, REACH (Registration, Evaluation, Authorization and Restriction of Chemicals), and Industrial Emissions Directive (IED) 2010/75/EU: Because the status has remained essentially unchanged, we refer to the last three letters to shareholders for the business year 2011/12.

Risk management

Risk management, as it has been practiced in the voestalpine Group since the business year 2000/01, serves to ensure both the continued long-term existence of the Group and an increase in its value, thus representing a key factor in its success.

This risk management system, which has undergone numerous updates and regular expansions, has been set forth in a general procedural directive that is valid Group-wide. The systematic risk management process aids in recognizing potential risks early on and initiating appropriate action to avert dangers.

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 within the scope of the Supervisory Board of voestalpine AG, which addresses questions related to risk management and the internal control system (ICS) and the monitoring thereof on an ongoing basis.

Both the risk management and the internal control systems are integral components of the existing management systems within the voestalpine Group. The Internal Audit department independently monitors operational and business processes and the ICS and has full discretion when reporting and assessing audit results.

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 throughout the entire Group. The evaluation of identified risks is implemented using an evaluation matrix that assesses possible losses and the probability of occurrence. All operational, environmental, market, procurement, technological, financial, and IT risks are documented. This process is aided by a special web-based IT system.

The preventive measures in the main risk areas presented in the Annual Report 2010/11 are still valid. They are:

Availability of raw materials

In order to ensure the supply of the required quantity and quality of raw materials and energy, the voestalpine Group has for years maintained a diversified procurement strategy that reflects the increased risks. Long-term, close relationships with suppliers, the expansion of our supplier portfolio, and the controlled expansion of the Group's self-sufficiency are the core elements of this strategy that is becoming increasingly important in view of the trend toward higher volatility on the raw materials markets (for more details, please refer to the "Raw Materials" chapter of this Annual Report).

Guidelines for hedging raw materials price risk

Within the scope of raw materials price risk management, the effects of fluctuations in the raw materials market on the operating result are being continuously monitored. Based on the acquired information and taking the individual distinctive characteristics of each raw material into consideration, price risks for the raw materials are hedged by executing delivery contracts containing fixed price agreements or by utilizing derivative financial instruments. An internal guideline regulates the details of the relevant procedure Group-wide.

CO_2 issues

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

Failure of IT systems

The servicing of business and production processes that are largely based on complex IT systems is handled by voestalpine group-IT GmbH, a company that specializes in IT and that is wholly owned by the Group holding company voestalpine AG.

Due to the importance of IT security and the minimization of possible IT security risks, minimum security standards for IT have been developed, and compliance with these standards is reviewed annually by way of an external audit. In order to reduce the risk of unauthorized access to IT systems and IT applications even further, additional periodic penetration tests are carried out.

Failure of production facilities

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

Knowledge management

For many years, we have been undertaking projects to sustainably secure knowledge and especially to prevent the loss of know-how. Further development of these projects is being consistently pursued. Available knowledge is documented on an ongoing basis, while new findings from key processes or projects as well as lessons learned as the result of unplanned events are incorporated accordingly. Detailed, IT-supported process documentation represents a central element of knowledge retention.

Risks in the financial sector

Policy-making responsibility, strategy decision-making, and definition of targets are centrally organized with regard to financial risk management. 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 liabilities incurred in connection with financial instruments. 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 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). Based primarily on our experience during the crises in recent years, the risk of default for our own remaining risk is reduced due to monitoring and close contact with our customers and is assessed as comparatively low. A high percentage of delivery transactions is covered by credit insurance. Bankable types of security, such as guarantees and letters of credit, are also provided. As of March 31, 2012, 77% of our trade receivables were covered by credit insurance.

Currency risk
The Group implements an initial hedge 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 differentiates basically between cash flow risk (the risk that interest expenses or interest income will undergo a detrimental change) for variable-interest financial instruments and present value risk for fixed-interest financial instruments. While taking the interest expense into consideration, this strategy aims to minimize the effects of interest rate volatility through the simultaneous management of interest rate risk and interest rate sensitivity. On the basis of the reporting date of March 31, 2012, an increase of the interest rate by 1% would result in net interest expense in the next business year that is higher by EUR 2.8 million.

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

Economic and financial crisis

Based on the knowledge gained as a result of the global economic and financial crisis of 2008 and 2009 and its effect on the voestalpine Group, additional—primarily corporate—measures were taken during the past several years to minimize risk, and these measures will continue to be consistently implemented in the coming years.

These measures are in particular targeted at
- Minimizing the negative effects that a recessionary economic trend would have on the Company by means of relevant planning precautions (scenario planning)
- Maintaining high product quality that distinguishes our products from the competition with a concurrent increase in efficiency and ongoing cost optimization
- Having sufficient financial liquidity available even in the event of constricted financial markets, and
- Securing in-house expertise with a view to continuing the long-term expansion of our quality and technology leadership even more efficiently than before

Concrete measures are being developed and implemented on an ongoing basis in order to minimize or eliminate risks identified within the voestalpine Group in the past; these measures aim at reducing the extent of potential loss 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. Thus, the separation of sensitive activities is supported by restrictiveness in the assignment of IT authorizations. Accounting in the respective Group companies is largely performed using SAP software. The functioning and effectiveness of this accounting system is also assured, among other ways, by automated IT controls installed in the system.

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

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

The accounting and controlling departments of the individual Group companies submit monthly reports with key performance indicators (KPI) 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; it reports directly to the CEO and submits reports periodically to the Management Board of voestalpine AG and subsequently to the Audit Committee of the Supervisory Board. The control systems of each company division are also subject to audit procedures by the auditor within the scope of preparation of the annual financial statements to the extent that these control systems are relevant to the preparation of the Group's consolidated financial statements and to a true and fair view of the Group's financial position.

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

As of March 31, 2012, the share capital of voestalpine AG amounts to EUR 307,132,044.75 and is divided into 169,049,163 no-par value bearer shares. 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, holds more than 15%, the voestalpine Mitarbeiterbeteiligung Privatstiftung, Linz, more than 10%, and Oberbank AG, Linz, more 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 2011/12.

The hybrid bond issued in October 2007, the EUR 400 million in fixed-interest securities 2009–2013, the EUR 500 million fixed-interest securities 2011–2018, long-term financing agreements with an initial volume of EUR 2.1 billion, which the Company executed in the business year 2008/09 with national and international banks, the syndicated loan in the amount of EUR 800 million (a EUR 400 million loan to consolidate liquidity requirements for investments and repayments in the business year 2012/13 and EUR 400 million as a revolving credit facility to ensure liquidity), and the promissory note loan issued in early May 2012 in the amount of EUR 400 million 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 if control of the Company changes. Under the terms and conditions of the hybrid bond issue, the fixed interest rate of 7.125% (interest rate during the fixed-interest period) or the margin of 5.05% (interest rate during the variable interest period) goes 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

Up to the third calendar quarter 2011, the global economy was characterized by a broad-based upwards trend. Only the crisis-ridden countries in Southern Europe, the countries in North Africa that are undergoing political upheaval, and parts of the Middle East were excluded from this trend. Toward the end of the year, however, the economic situation became regionally differentiated. While North America and the markets in Northern and Western Europe continued to be relatively stable, the situation in the rest of Europe, particularly in the southern part of the continent, became increasingly critical; at the same time, doubts about the sustainability of the upward trend in China and in major South American countries became more insistent.

From the fourth calendar quarter on, however, recessionary trends in Europe, resulting from ongoing escalation of the debt crisis, especially in Greece and Spain, as well as greater volatility in the economies of China and Brazil resulted in increased uncertainty about the continued recovery of the global markets. Even the comparatively favorable US economic figures and a recovery of the Japanese economy from the disasters in March 2011 that was more rapid than expected could not change the overall economic picture. Now, in mid-2012, growing nervousness on the capital markets and persistent doubts about the crisis resistance of the financial markets is not being conducive to strengthening confidence in a positive economic outlook for the rest of the year.

The challenging macroeconomic climate is increasingly leaving its mark on the real economy, especially in Europe. In addition to the construction and construction supply industries that have still not returned to their former levels after the crisis years 2008 and 2009, significant parts of the automobile industry and of the energy sector have now begun to suffer from a growing weakness in demand. And although the development of the mechanical engineering sector, the aviation industry, and railway infrastructure continues to be satisfactory, this cannot compensate the negative impact on the other sectors.

In this environment, very specific challenges are looming for the European steel industry, particularly in the flat steel segment. This industry that is beset by structural overcapacity is still a long way from the summer recovery that had been anticipated in early 2012, and even the probability of a sustainable upswing in the latter part of the year is receding. Massive underutilization of capacity in Europe, especially in the ordinary steel industry, combined with extremely volatile raw materials prices, which are, however, trending downward, is resulting in destructive price wars.

Against this backdrop, once again, the voestalpine Group's consistent downstream strategy, in conjunction with its technology and quality leadership, is proving to be the key to differentiating us from the competition. Today, the three processing divisions are generating two thirds of the Group's revenue and, for the past several quarters, their stable operating results have been largely compensating the volatility of the Steel Division. Thus, they are increasingly becoming the determining factor for the Group's earning potential and are setting the course for its transformation from a steel corporation to a processing and technology corporation. As far as the operating result is concerned, this means that despite the difficult environment in the steel sector, due to the Group's robust downstream operations, from today's perspective, an operating result that is at about last year's level should be attainable. Ultimately, however, the development during the rest of the year will continue to be driven by the all too familiar macroeconomic topics of debt crisis, capital market volatility, and skepticism regarding the financial markets as well as the rate of growth in the threshold countries.