

LETTER TO SHAREHOLDERS

1st QUARTER 2005/06

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voestalpine GROUP – KEY FIGURES

(according to IFRS; in millions of euros)

	Q1 2005/06 1/4 – 30/6/2005	Q1 2004/05 1/4 – 30/6/2004	Change in %
Revenue	1,668.5	1,347.4	23.8
Profit from operations before depreciation (EBITD)	297.6	162.4	83.2
EBITD margin (in %)	17.8	12.1	
Profit from operations (EBIT)	204.9	94.4	117.0
EBIT margin (in %)	12.3	7.0	
Profit before tax (EBT)	198.4	81.6	143.1
Profit for the period from continuing operations	148.2	53.2	178.4
Profit for the period	148.2	50.4	193.9
EPS – Earnings per share from continuing operations (in EUR)	3.70	1.31	182.8
Investments in tangible and intangible assets and interests	130.9	103.7	26.2
Depreciation	92.7	70.6	31.3
Equity	2,231.1	1,976.8	12.9
Net financial debt	672.7	621.3	8.3
Net financial debt (in % of equity)	30.1	31.4	-4.1
Employees excl. apprentices	23,431	23,118	1.4
Capital Employed	3,816.9	3,210.3	18.9

voestalpine

ONE STEP AHEAD.

LETTER FROM THE MANAGEMENT BOARD

Ladies and Gentlemen,

The extremely satisfactory performance of the Group during the last business year has continued seamlessly into the first quarter of the 2005/06 business year. Benefiting from the outstanding development in the Division Railway Systems, a largely stable and positive situation in the Divisions Steel and Profilform, as well as the clear upwards trend in the division motion, all the key figures showed significant increases as compared to the same period of the last business year.

Once again, the figures prove that the strategy we have implemented during the last few years is paying off. This strategy has built on the fact that our manufacturing base centered on steel occupies an excellent position, both with regard to technology and as far as the market is concerned. This has enabled us to move the value chain step by step toward the end customer in clearly defined processing sectors—the Divisions Railway Systems, Profilform, and motion.

The expectations for the current business year emphasize the fact that the course we have taken is absolutely right.

In order to be able to continue this value-adding growth process in the future, while at the same time retaining optimal financing, in July, **voestalpine AG** issued a convertible bond for EUR 250 million. The huge interest on the part of investors and the bond's very successful placement is yet more proof that our strategy is right, and it encourages us to continue on this path.

As indicated under „Outlook“ in the 2004/05 Annual Report, from today's vantage point, we anticipate that it should be possible to again post an operating result of more than EUR 500 million for the current business year and to even come close to the record operating result of last year's EUR 552.5 million.

Linz, August 2005

The Management Board



Wolfgang Eder



Werner Haidenthaler



Wolfgang Spreitzer



Josef Mülner



Franz Hirschmanner



Robert Ottel

OVERVIEW OF THE DEVELOPMENT OF THE KEY FIGURES

The development of the **voestalpine** Group during the first quarter has continued the success of the 2004/05 business year.

All the key figures rose significantly in comparison to the first quarter of the 2004/05 business year:

- **Revenue** went up by **23.8%** from EUR 1,347.4 million to **EUR 1,668.5 million**.
- **Profits from operations before depreciation (EBITD)** increased by **83.2%** from EUR 162.4 million to **EUR 297.6 million**. This means that the **EBITD margin** rose to **17.8%** in contrast to 12.1% during the comparable quarter of the previous year.
- **Profits from operations (EBIT)** went up from EUR 94.4 million to **EUR 204.9 million**. This corresponds to **117%** growth. This means that the **EBIT margin** is at **12.3%** as compared to 7% in the first quarter of 2004/05.
- The **profit before tax (EBT)** came to **EUR 198.4 million** and went up as compared to the previous year's figure of EUR 81.6 million by **143.1%**.
- Compared to last year (53.2 million), **profit for the period from continuing operations** almost tripled at **EUR 148.2 million**. The profit for the period from discontinued operations (**voestalpine Matzner**) was 0 (as compared to minus EUR 2.8 million in the first quarter of 2004/05). This results in a **profit for the period** of **EUR 148.2 million** as compared to EUR 50.4 million in the previous year. This corresponds to an increase of **193.9%**.
- Compared to the comparative quarter of the previous year, the **earnings per share** (from continuing operations) rose from EUR 1.31 to **EUR 3.70**.
- Although the **net financial debt** rose from EUR 621.3 million to **EUR 672.7 million**, the **gearing ratio** declined as compared to the end of the first quarter of 2004/05 from 31.4% to **30.1%**, because, at the same time, **equity** went up from EUR 1,976.8 million to **EUR 2,231.1 million**.
- As of 30 June 2005, the **voestalpine** Group has **23,431 employees**. This corresponds to approximately **1.4%** growth compared to the previous year (23,118).
- All of the **most important Group companies** showed **clearly positive operating results** in the first quarter of the current business year.

BUSINESS PERFORMANCE OF THE **voestalpine** GROUP

The first quarter of the 2005/06 business year was characterized by an economic environment in the steel industry that was slightly weaker than that of the immediately preceding quarters, but it was still a very good market environment compared to the first quarter of the last business year. At the same time, the prices of raw materials continued to rise during the first half of the 2005 calendar year. It wasn't until the most recent weeks that we were able to secure lower prices for individual raw materials (coke, ore) for short-term and spot contracts.

We would like to highlight the fact that the worldwide investment boom in the energy sector has led to a continuing high demand for products used in the production and processing of oil and natural gas (tubes, tube plates, rolled steel grades, steel grades for offshore construction).

The Division Railway Systems has profited significantly from this trend via its niche sector of seamless tubes; the economic environment in the actual railway sector in Europe—in contrast to the markets overseas—continues to be lackluster. However, the trend in the wire sector, in particular for specially treated wire, continues to be favorable.

On one hand, the division motion profited from the slightly improved economic environment in the European automotive industry and, on the other, from the consistent optimization of its product portfolio that has further improved its margin profile.

After the extraordinary year 2004/05, the market situation for the Division Profilform returned to normal as anticipated to a level that continues to be satisfactory.

The Division Profilform and the Division Steel showed the highest increase in revenue (35% resp. 30%). The Divisions Railway Systems and motion also showed significant growth (19% resp. 9%).

As far as the operating result is concerned, the Divisions Railway Systems and Steel posted an increase in EBIT of 195% and 130% respectively as compared to the first quarter of the previous year. At EUR 204.9 million, the **voestalpine** Group overall was able to more than double the profit from operations (EBIT) as compared to the already excellent result of the same quarter of the previous year. EBITD also went up considerably from EUR 162.4 million to EUR 297.6 million (+ 83,2%). Accordingly, the EBITD margin rose (from 12.1% to 17.8%) and the EBIT margin went up as well (from 7.0% to 12.3%).

ACQUISITIONS

division motion was able on 1 April 2005 to conclude the acquisition of HTI GmbH, the German precision parts manufacturer. The company specializes in rotational forming and surface technology and manufactures a broad product range of formed tube components which are used predominantly in the automotive field especially in the luxury and safety segments.

The automotive division took another important strategic step towards a development and production partnership with the automobile industry with its acquisition of the Vollmer Group – also

domiciled in Germany – in April 2005. The Vollmer Group specializes in complex pressed parts and components made from steel and also from alternative materials such as aluminum that are used above all as safety elements in the vehicle body shell and engine environment.

Further acquisitions took place in division Railway Systems in May 2005. VAE Eisenbahnsysteme GmbH took over 51% of the German company CONTEC GmbH. CONTEC is employed particularly in the field of point mechanisms for suburban railway systems thus representing a perfect complement to VAE's HYTRONICS product sector (hydraulic point mechanisms plus electronic monitoring and diagnostic systems).

In addition to this, VAE Eisenbahnsysteme GmbH in Germany acquired 80% of SST Signal & System Technik GmbH. SST is a supplier of monitoring systems for rail traffic and specializes in hot box and blocked brake detection systems.

INVESTMENTS

The investments of the **voestalpine** Group in the first three months of the 2005/06 business year, amounted to EUR 130.9 million. This corresponds to an increase of 26.2% as opposed to the comparative period of the previous year (EUR 103.7 million).

Since the first phase of the „Linz 2010“ investment program was completed when the new blast furnace A started up operation, the contracts to erect the main facilities for the second expansion phase were awarded in June 2005. The core elements of this second phase are a cold rolling mill, two hot-dip galvanizing plants, as well as a walking beam furnace that will expand the capacity of the hot wide strip rolling mill. Similarly to the first stage of the project, the total investment will come to approximately one billion Euros and will also be fully financed from the cash flow of the Division Steel. Construction began in early August 2005, and the new facilities (with the exception of both hot-dip galvanizing plants) will start up operations during the first half of 2007.

The work for the Division Railway Systems' new rail rolling plant at the Donawitz location is underway and on schedule. With investment costs of roughly EUR 66 million, the most modern rail rolling plant in the world is currently under construction at this site. This new plant will continue to expand our technology leadership in the track sector. Start-up of operations is slated for early February 2006.

The Division Profilform opened a new production hall on 3 June at the site in Vyskov, Czech Republic. In addition, on 15 June, the new plant that was erected in Vyshniy Volochek, Russia, within the scope of a joint venture by Nedcon N.V. and a Russian partner began production of industrial storage systems.

During the last quarter, the division motion made a number of minor expansion and modernization investments. For example, a new, non-linear laser welding facility for the production of blanks began operations at Euroweld in Turin, and two new facilities at **voestalpine** Präzisionsrohrtechnik GmbH began production of parts for high precision steel tubes.

RESEARCH & DEVELOPMENT

One of the main focuses of R&D activities was on process improvement in the processing of press-hardened steel grades that are primarily used in body-in-white production for the automo-

tive sector. Researchers in the Divisions Steel and motion have jointly developed and patented a process that provides competitive advantages with regard to corrosion protection and process costs in particular.

Another focus is intensive research into the combination of the three materials steel, aluminum, and plastics to so-called hybrid components that are being increasingly used in the automotive industry.

Additionally, it is impressive that the so-called competence network for the development of metallurgical and environmental processes (KnetMET), which was established as a consortium four years ago by the **voestalpine** Group, Siemens, VAI, and RHI, together with university research facilities, was given a high rating with regard to its scientific standards by a recent international report.

The topics that this research network undertakes are extremely diverse and range from process optimization to simulations and new processes as well as the utilization of new materials.

Furthermore, the Division Steel is participating in „Join,“ the Austrian competence network for joining techniques. The goal of this project is technology leadership in the joining techniques segment, which includes all processes associated with materials. An important focus is to research and optimize the welding suitability of newly developed metal-coated and organically coated sheet metal for the automotive industry.

OUTLOOK

During the first three months of the 2005/06 business year, the performance of the **voestalpine** Group was slightly stronger than originally anticipated; in particular the Division Railway Systems was able to continue to substantially increase its figures as compared to the last quarters.

We see the performance for the rest of the business year developing as follows.

Rigorous volume management in the steel industry by the European manufacturers is currently resulting in a reduction of inventory at both the customer and the distributor level. Additionally, the spot and short-term prices are stabilizing after being under pressure since the beginning of the year because of high inventory and imports. Against this backdrop, the next months should bring a development of prices that is considerably more favorable for the manufacturers than in the first half of the calendar year. However, apart from this situation, the Division Steel is profiting from its extensive long-term contracts that should enable it to post an operating result that is comparable to the previous year's.

In the Division Railway Systems, we can assume that the very satisfactory trend will continue throughout the entire business year, and that the upward trend in the performance of the division motion will continue throughout the year as well.

Because the Division Profilform will be largely able to retain its strong position, we are currently assuming that the **voestalpine** Group should again come close to the previous year's operating result (EBIT EUR 552.5 million), despite the fact that prices for raw materials have gone up as compared to the previous year.

BUSINESS PERFORMANCE OF THE DIVISIONS

voestalpine – Division Steel



In millions of euros	Q1 2005/06 1/4 – 30/6/2005	Q1 2004/05 1/4 – 30/6/2004
Sales	898.0	689.4
EBITD	185.3	95.4
EBITD margin (in %)	20.6	13.8
EBIT	134.8	58.6
EBIT margin (in %)	15.0	8.5
Employees excl. apprentices	9,619	9,411

The business performance of the Division Steel was characterized by a demand for supply quantities that remained stable overall. Slightly weaker demand in building construction was more than compensated by the continued strong demand for steel grades for offshore construction and special heavy plates for pipelines.

The total supply quantity rose slightly by 0.4% to 1.11 million tons. At the same time the average price level across all product groups supplied by the Division went up in contrast to the first quarter of the previous year by about 30% because of comparatively higher demand. In comparison to the first quarter of 2004/05, price increases have been implemented in a significant part of the long-term contracts. An adjustment of additional long-term contracts will be effected as of the beginning of the 2006 calendar year.

Comparatively to the same quarter in the previous year, crude steel production by the Division Steel rose by 5% from 1.19 million tons to 1.25 million tons. If one includes the quantities produced at the Donawitz location of the Division Railway Systems (0.38 million tons), the crude steel production of the entire **voestalpine** Group, relative to the first quarter of the past business year, increased by 5% from 1.55 million tons to a total of 1.63 million tons.

voestalpine – Division Railway Systems

In millions of euros	Q1 2005/06 1/4 – 30/6/2005	Q1 2004/05 1/4 – 30/6/2004
Sales	468.7	393.7
EBITD	73.1	34.4
EBITD margin (in %)	15.6	8.7
EBIT	51.3	17.4
EBIT margin (in %)	11.0	4.4
Employees excl. apprentices	6,764	7,234



The Division Railway Systems was able to significantly increase sales (+ 19%) and EBIT (+ 195%) compared to the first quarter of 2004/05. This extremely gratifying development is primarily due to greater demand for the sophisticated wire and seamless tube products.

In the railway industry sector, a slight recovery of the demand for tracks is noticeable in Germany. Nevertheless, the economic environment for the railway technology sector in the European core markets—in particular for the switches segment—continues to be difficult. In comparison, the market environment in North America, Australia and Asia has remained favorable.

In contrast with the first quarter of the 2004/2005 business year the switch manufacturer Rail Products & Fabrications (USA), as well as the two Indian companies, VAE VKN Industries Pvt. Ltd. and Digvijay Steels Pvt. Ltd., were added to the Group's consolidated companies.

voestalpine – division motion

In millions of euros	Q1 2005/06 1/4 – 30/6/2005	Q1 2004/05* 1/4 – 30/6/2004
Sales	215.0	197.7
EBITD	22.9	18.0
EBITD margin (in %)	10.7	9.1
EBIT	11.4	8.0
EBIT margin (in %)	5.3	4.0
Employees excl. apprentices	4,004	4,023



* P&L figures and employees were adjusted by discontinued operations.

The substantially improved business performance of the division motion compared to last year is a result of the favorable trend in the economic situation of the automotive industry, in particular, the satisfactory demand on the part of our most important customers. Against this backdrop, we were successful in increasing the EBIT margin from 4% to 5.3%. We must emphasize that the higher EBIT margin compared to the previous year is not a result of the closure of **voestalpine Matzner**, because last year's figures in this comparative analysis were adjusted with regard to **voestalpine Matzner**.

During the first quarter, the German automotive supply companies HTI (sales revenue contribution EUR 4.74 million) and Vollmer (sales revenue contribution EUR 8 million) were consolidated for the first time. Both companies achieved clearly positive operating results.

The closure of **voestalpine Matzner** that was decided upon in early May 2005 no longer has any effect on the operating result, because the appropriate provisions were made in the 2004/05 financial statement for all expenses associated with the closure.

voestalpine – Division Profilform

In millions of euros	Q1 2005/06 1/4 – 30/6/2005	Q1 2004/05 1/4 – 30/6/2004
Sales	202.3	149.8
EBITD	26.9	22.4
EBITD margin (in %)	13.3	15.0
EBIT	20.1	16.7
EBIT margin (in %)	9.9	11.1
Employees excl. apprentices	2,699	2,112



While the business performance of the Division Profilform relative to the comparative quarter of the previous year was slightly weaker, it was still satisfactory, due primarily to the high demand for customer-specific profiles for the building and commercial vehicle industry. In contrast, the standard tubes sector showed a more subdued demand.

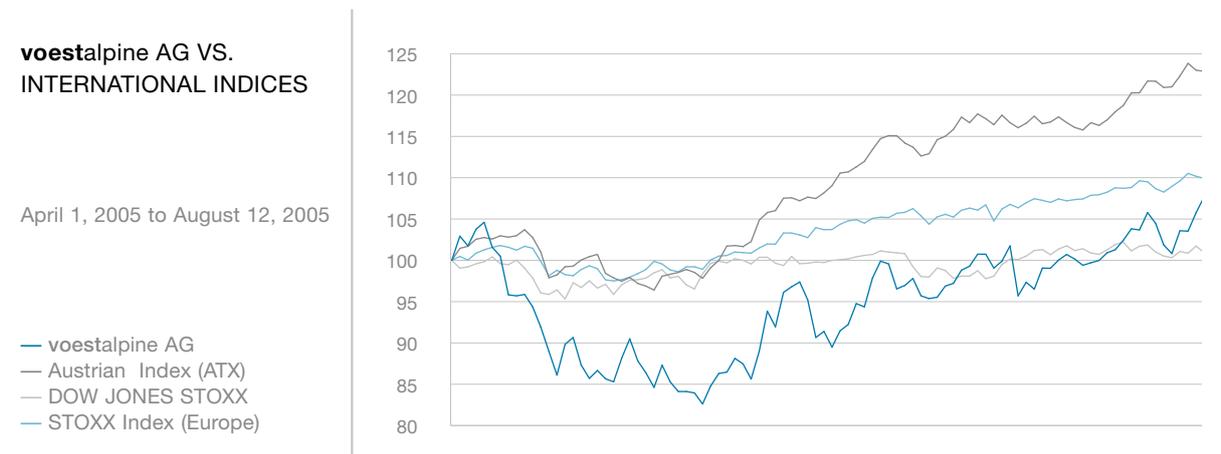
The rise of the sales revenue, which climbed compared to the first quarter of the past financial year by 35% from EUR 149.8 million to EUR 202.3 million, is the result of higher prices on the one hand and, on the other, the effect of the fact that Nedcon N.V. was included in the Group's consolidated companies (sales revenue contribution: EUR 27 million).

voestalpine SHARE

PRICE PERFORMANCE

The price performance of the **voestalpine** share during the first quarter of 2005/06 was characterized by the uncertainty with regard to the further development of the steel market and the steel-processing industry. It was primarily the negative trend in the price on the spot markets, which was driven by the growing build-up of inventory, that put pressure on the prices of steel stocks between April and June. The result was that the **voestalpine** share temporarily lost ground as compared to the market indices.

Since early June, there has been a trend reversal. On one hand, the general market conditions for steel and steel processing companies are viewed far more positively after the end of the summer, and on other, the implementation of the Group's successful strategy during the last several years has had a sustained positive effect on the financial profitability of **voestalpine** AG. The assessment of the share is just beginning to take this fundamentally positive development into consideration.

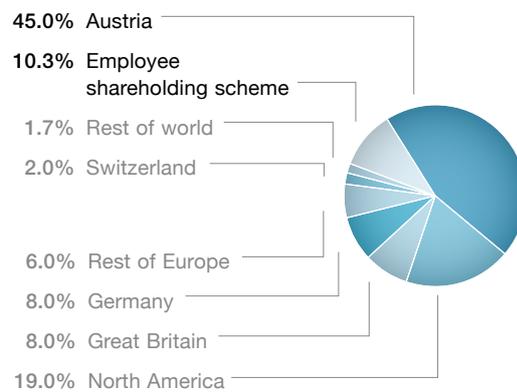


After all, when observing the price performance during the last few months, one should not lose sight of the fact that this period saw the conversion of the convertible bond issued by the Austrian state holding company ÖIAG in September 2003 for the last 15% of the **voestalpine** AG shares that were publicly held, and this was naturally associated with an adverse affect on the share price. As of the end of August 2005, this process will be completed, and **voestalpine** AG will then be completely free of any government influence for the first time in its history.

SHAREHOLDER STRUCTURE

OWNERSHIP STRUCTURE (indicative)

Business year 2004/05



CONVERTIBLE BOND

The authorization to issue convertible bonds that was approved by the Annual General Shareholders' Meeting on 30 June 2005 was already implemented on July 14, 2005. In order to achieve the best possible terms for the financing of the continued growth of the **voestalpine** Group, the Management Board decided to take advantage of the currently extremely favorable terms for such instruments in the short term.

The total value of the convertible bond issue was EUR 250 million (incl. greenshoe option), the interest coupon is 1.5%, the conversion price is just under EUR 75. Because of the high demand, the convertible bond issue was oversubscribed many times over within just a few hours. This was additional proof of the confidence that the capital market has in the strong position of the company and also proof that the Group's strategy is paying off.

SHARE INFORMATION

Share capital

EUR 287.784,423.30 divided into
39.600,000 non-par value shares
Shares in proprietary possession as of
30 June 2005: 73,436 shares

ISIN

AT0000937503

Reuters

VOES.VI

Bloomberg

VOE AV

CLASS OF SHARES

Common bearer shares
Details in euros

Highest market price April 2005 through June 2005	62.30
Lowest market price April 2005 through June 2005	49.20
Share price as of June 30, 2005	57.90
Market capitalization as of June 30, 2005*	2,292.840,000

* Basis: total number of shares minus repurchased shares

BUSINESS YEAR 2004/05

Details in euros

Earnings per share	9.44
Dividend per share	1.50 + 0.60 Bonus
Book value per share	54.79

PROJECTED SCHEDULE FOR 2005/06

22 November 2005	Letter to Shareholders 1 st half 2005/06
17 Februar 2006	Letter to Shareholders 3 rd quarter 2005/06
12 June 2006	Publication of the operating result of the 2005/06 business year
5 July 2006	Annual General Shareholders' Meeting
10 July 2006	Ex-dividend date
17 July 2006	Dividend payment date

Regular analyses regarding the development of the price of **voestalpine** AG shares as viewed by the capital market are prepared by the following institutions:

Bank Austria Creditanstalt, Vienna. BHF-BANK, Frankfurt. CSFB, London. Deutsche Bank, Vienna. Erste Bank, Vienna. Exane BNP Paribas, Paris. Goldman Sachs, London. HSBC, Paris. JP Morgan, London. Merrill Lynch, London. Morgan Stanley, London. Raiffeisen Centrobank, Vienna. Steubing AG, Frankfurt. UBS, London

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voestalpine AG

FINANCIAL DATA FOR THE

1st QUARTER ENDED JUNE 30, 2005

ACCORDING TO IFRS

CONSOLIDATED BALANCE SHEET AT 30/6/2005

ASSETS

In millions of euros	30/6/2005	31/3/2005
A. NON-CURRENT ASSETS		
Property, plant and equipment	2,161.3	2,166.6
Goodwill	244.9	217.4
Other intangible assets	68.5	48.9
Investments in associates	53.7	57.8
Other financial assets	101.2	113.7
Deferred tax assets	59.0	56.1
	2,688.6	2,660.4
B. CURRENT ASSETS		
Inventories	1,289.5	1,224.8
Trade and other receivables	1,241.9	1,110.4
Other financial assets	200.4	182.2
Cash and cash equivalents	228.5	177.5
	2,960.3	2,694.9
TOTAL ASSETS	5,648.9	5,355.3

EQUITY AND LIABILITIES

In millions of euros	30/6/2005	31/3/2005
A. EQUITY		
Share capital	287.8	287.8
Capital reserves	451.8	451.8
Retained earnings and other reserves	1,441.6	1,379.0
Equity attributable to equity holders of the parent	2,181.1	2,118.5
Minority interest	49.9	47.8
	2,231.1	2,166.3
B. NON-CURRENT LIABILITIES		
Pensions and other employee obligations	414.6	411.3
Provisions	25.1	24.8
Deferred tax liabilities	71.2	69.9
Financial liabilities	734.0	697.4
Trade and other payables	4.1	3.0
	1,249.1	1,206.3
C. CURRENT LIABILITIES		
Provisions	393.4	360.8
Financial liabilities	688.8	619.6
Trade and other payables	1,086.6	1,002.3
	2,168.8	1,982.7
TOTAL EQUITY AND LIABILITIES	5,648.9	5,355.3

CONSOLIDATED INCOME STATEMENT FOR THE 1st QUARTER 2005/06

In millions of euros	1/4 – 30/6/2005	1/4 – 30/6/2004
Revenue	1,668.5	1,347.4
Cost of sales	-1,285.3	-1,076.8
Gross profit	383.2	270.5
Other operating income	44.4	31.6
Distribution costs	-106.7	-105.0
Administrative expenses	-71.5	-61.8
Other operating expenses	-44.5	-40.9
Profit from operations (EBIT)	204.9	94.4
Share of profit of associates	3.6	3.5
Finance income	15.5	7.4
Finance costs	-25.7	-23.7
Profit before tax (EBT)	198.4	81.6
Income tax expense	-50.2	-28.4
Profit for the period from continuing operations	148.2	53.2
Discontinued operations	0.0	-2.8
Profit for the period	148.2	50.4
Attributable to:		
Equity holders of the parent	146.1	48.7
Minority Interest	2.1	1.7
Basic earnings per share from continuing operations = Diluted earnings per share from continuing operations (euros)	3.70	1.31

CONSOLIDATED CASH FLOW STATEMENT FOR THE 1st QUARTER 2005/06

In millions of euros	1/4 – 30/6/2005	1/4 – 30/6/2004
OPERATING ACTIVITIES		
Profit for the period	148.2	50.4
Adjustments	85.5	73.5
Changes in working capital	-72.0	-9.9
Cash flows from operating activities	161.6	114.0
Cash flows from investing activities	-168.2	-96.6
Cash flows from financing activities	61.9	9.6
Net decrease/increase in cash and cash equivalents	55.4	27.0
Cash and cash equivalents, beginning of 1 st quarter	177.5	196.6
Net exchange differences	-4.4	0.0
Cash and cash equivalents, end of 1st quarter	228.5	223.6

STATEMENT OF CHANGES IN EQUITY FOR THE 1st QUARTER 2005/06

In millions of euros	1/4 – 30/6/2005	1/4 – 30/6/2004
Balance as of April 1	2,166.3	1,906.1
Profit for the period	148.2	50.4
Dividends	-85.3	0.0
Own shares acquired/disposed	-0.7	-0.6
Currency translation	4.3	0.1
Hedge Accounting	-3.2	3.6
Other changes	1.5	-1.8
Balance as of June 30	2,231.1	1,957.8

IMPRINT

OWNER AND MEDIA PROPRIETOR

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