REPORT BY THE MANAGEMENT BOARD

IN ACCORDANCE WITH SEC. 153 PARA. 4 TOGETHER WITH SEC. 174 PARA. 4 OF THE AUSTRIAN STOCK CORPORATION ACT (AKTIENGESETZ) WITH REGARD TO ITEM 7 OF THE AGENDA OF THE ANNUAL GENERAL SHAREHOLDERS' MEETING OF VOESTALPINE AG

1. Authorization

The Management Board of **voest**alpine AG (the ***Company***) intends to recommend a resolution to the Annual General Shareholders' Meeting, which will authorize the Management Board for the period of five years beginning on the day of this resolution to issue – also in several tranches – convertible bonds that grant subscription and/or exchange rights for the purchase of a total of up to 3,960,000 shares of the Company (based on the current number of shares, this is up to 10% of the shares).

To serve the convertible bonds, the Management Board will be authorized to use contingent capital or own shares or a combination of contingent capital and own shares. The amount and the terms of issue shall be determined by the Management Board.

In addition, the Management Board shall be authorized by the Annual General Shareholders' Meeting to exclude the shareholders' right to subscribe to convertible bonds.

The economic reasoning for this measure is as follows:

2. Advantage of issuing convertible bonds

In general, the advantages of convertible bonds can be seen in three crucial aspects: low and thus attractive financing costs for the Company, a high initial offering price because of the convertible's premium, and the development of a new set of shareholders.

2.1 Improved financing opportunities

Convertible bonds provide investors with a return at a comparatively low risk with regard to the re-payment of the original capital. At the same time, they will be able to buy shares in the Company in the future at a price that is determined at the time the convertible bonds are issued ("conversion price") so that they will still be able to participate in the substance and the profitability of the Company. In this way, investors will have the opportunity to participate in the Company's rise in value.

The Company has been managing its capital structure actively for quite some time now, in order to keep capital costs as low as possible. Convertible bonds are an appropriate way to achieve this goal. The previously mentioned components, namely, the high degree of security for bond holders and the opportunity to participate in increases in the stock price by being able to convert the bonds to shares, the Company will have flexible and quick access to attractive financing terms, in part below the level of external debt instruments. Convertible bonds also offer the opportunity to utilize the high volatility of the shares based on the market trend for the benefit of the Company, thus lowering the Company's capital costs. Besides, issuing convertible bonds is often considered a positive signal on the capital market that the management is confident about the future trend of their stock price.

Because of the terms of convertible bonds, the initial offering price of the shares to be issued is above the share price at the time the convertible bonds are issued so that additional capital is put into the company compared to an immediate capital increase. From past experience, one can say that the initial offering price excludes a dilution of shareholders' asset sharing (in this regard, see Item 2.3). Actual practice has shown that issues where subscription rights are excluded generally tend to achieve better terms, since immediate placement makes it possible to avoid risks stemming from a changed market situation; thus investors who specialize in convertible bonds can be targeted specifically. For a subscription rights issue, however, a minimum two-week subscription period must be complied with. This is why it is now customary practice to exclude subscription rights when convertible bonds are issued on the international capital market.

2.2 Target group institutional investors

Convertible bonds are usually subscribed to only by institutional investors who specialize in this investment form; it is this group that is being targeted by the convertible bond that will be issued. Thus, the Company will be able to develop a new base of investors by issuing convertible bonds. Attractive financing conditions can, however, be achieved only if the Company can react quickly and flexibly to favorable market conditions. It would not be possible to benefit from this advantage with a subscription rights issue that has a subscription rights period of at least two weeks.

In addition, if a convertible bond is priced in accordance with current market conditions, meaning that it is placed at the best terms attainable on the market, something that the Company is aiming for, both in its own interest and in the interest of its shareholders, the subscription rights have no economic importance. This is primarily achieved by a predetermination of the issue price of the shares to be issued, which, at the time conversion rights are exercised, is at least 30% above the current share price level; this provides protection for all existing shareholders against a dilution in value of their shares.

By dispensing with the time-consuming handling of subscription rights, the Company's capital needs can be quickly met by short-term opportunities offered by the market and additional new investors both in Austria and abroad can be acquired. The possibility of excluding subscription rights brings a reinforcement of equity capital and a lowering of financing costs, something that serves the interests of both the Company and all of its shareholders.

2.3 Issue price

The issue price at the time when exchange and/or subscription rights for the shares to be issued are exercised is calculated according to the volume-weighted average price on the Vienna Stock Exchange on the day the convertible bond is offered between the beginning of trading and the price fixing, plus a premium of at least 30% or higher, whichever corresponds to the Company's expectations and experience with similar transactions on the relevant market regarding how the price will develop; to determine the similarity of a transaction, the maturity, the interest, and the volume are the crucial factors. In this manner, the authorization period of five years enables the Company to be flexible about fixing attractive issuing conditions.

At the same time, this will take the expected development of the share price into account and enable an appropriate response to the terms and practices on the international finance markets at the time of issue. The issue price of the shares to be issued at the time when exchange and/or subscription rights are exercised is at least 30% above the current price level when the bond is issued, thus offering existing shareholders protection against a dilution of the value of their shares.

Should the expectations regarding the future development of the Company and the market environment permit a higher premium on top of the current price, this additional potential can be fully taken advantage of for the benefit of the Company and the existing shareholders. Therefore, the planned minimum issue price seems to be appropriate and objectively justifiable.

3. Weighing all interests

The goal, namely an optimization of the capital structure and a lowering of financing costs, which will result in continued reinforcement and improvement of the Company's competitive position objectively justifies the authorization that has been put forward regarding the exclusion of subscription rights, as this is in the interests of the Company and the shareholders. Furthermore, the exclusion of subscription rights is appropriate and necessary because the target group-specific orientation of convertible bonds replaces more cost intensive capital measures in the anticipated provision of equity capital and offers favorable financing terms. This provides the opportunity for long-term, flexible business planning and the realization of strategic company goals for the benefit of the Company and of all its shareholders. Without

excluding subscription rights, it would not be possible for the Company to react quickly and flexibly to favorable market conditions.

In addition, we would like to point out that the exchange and/or subscription rights for the convertible bonds can only be serviced with contingent capital and/or own shares. Even if the convertible bonds are serviced exclusively with contingent capital, the dilution of equity interests is, in accordance with the recommendation to the Annual General Shareholders' Meeting, not greater than a maximum of 10% of the Company's share capital. This dilution of equity interests can be easily compensated by additional purchases on the stock exchange. Additionally, the Company intends to list the convertible bonds on the Vienna Stock Exchange so that any dilution of equity interests can be compensated by additional purchases of convertible bonds on the stock exchange. The Company also intends to offer the convertible bonds in a denomination that enables small shareholders to have access to the convertible bonds via the stock exchange. Finally, in order to prevent dilution of value, the Company intends to have an offering price where the value of a hypothetical subscription right to the convertible bond would be meaningless.

The Management Board of the Company expects that the advantages that the Company will have from issuing the convertible bonds under exclusion of subscription rights will benefit all shareholders overall and that this will far outweigh any relative investment disadvantage that those shareholders who are excluded from subscription rights may have. In summary, one can say that when all the preceding circumstances are considered, the authorization to resolve the exclusion of subscription rights within the limits described is necessary, reasonable, appropriate and objectively justifiable in the overall best interest of the Company.

Linz, 8 June 2005

The Management Board