2006

RHI Annual Report >> 2006

RHI

RHI Mission Statement

We are the world's leading supplier of high-grade ceramic refractory products and services.

As a reliable and competent partner it is our constant aim to add value to the processes of our customers by achieving the best price-performance ratio with our refractory systems solutions.

Our actions reflect our values and our corporate strategy.

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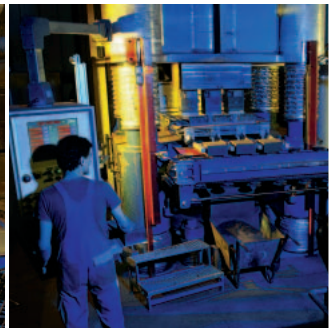
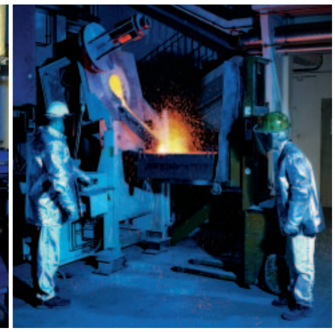
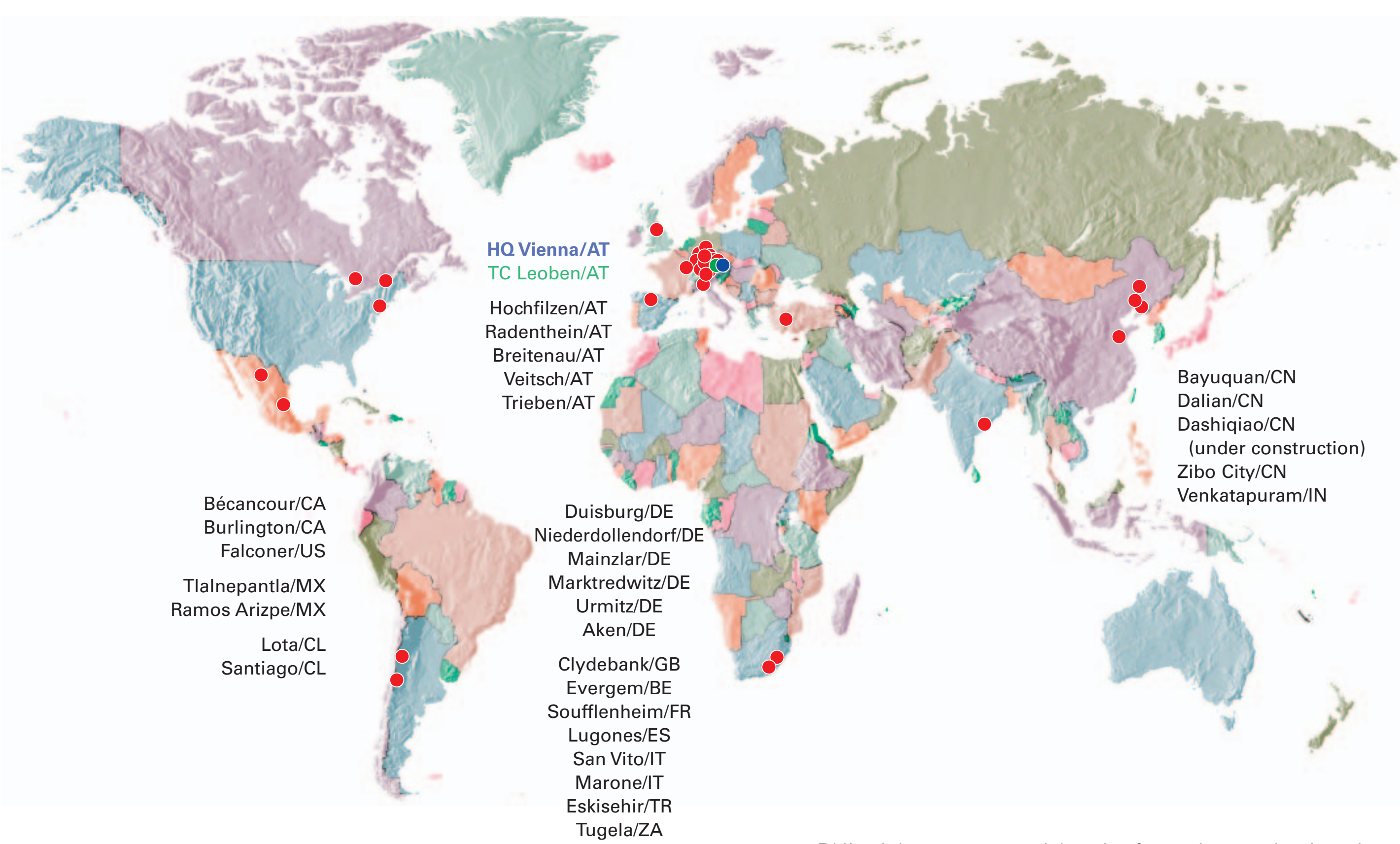




For over 100 years, RHI has developed refractories solutions for customers in key industries such as iron, steel, cement, lime, nonferrous metals, glass, energy, chemicals and environmental technology, in which ceramic refractory products are crucial to all high-temperature processes exceeding 1,200° Celsius. RHI is the global market and technology leader in refractories and operates 32 modern production sites worldwide.



RHI mining, raw material and refractories production sites

Board Members

Management Board
(from left to right):

Manfred Hödl
Member of the Board,
Division Industrial

Eduard Zehetner
Deputy Chief Executive Officer
and Chief Financial Officer

Andreas Meier
Chief Executive Officer
and Chairman of the Board

Giorgio Cappelli
Member of the Board,
Division Steel

Helmut Draxler (until 14 January 2007) also served
on RHI's Management Board during the reporting period.

Supervisory Board

Michael Gröller
Vienna, Austria
Chairman

Gerd Peskes
Düsseldorf, Germany
Deputy Chairman

Gerd Klaus Gregor
Vienna, Austria

Cornelius Grupp
Lilienfeld, Austria

Stanislaus Prinz zu Sayn-Wittgenstein-Berleburg
Munich, Germany

Erhard Schaschl
Vienna, Austria

Kurt Waniek
Vienna, Austria

Employee Representatives:

Josef Horn
Trieben, Austria

Martin Kowatsch
Radenthein, Austria

Leopold Miedl
Vienna, Austria

Karl Wetzelhütter
Breitenau am Hochlantsch, Austria

Foreword by the CEO

Ladies and Gentlemen,
Dear Shareholders,

I am very pleased to present to you the "New RHI" in this report on the financial year 2006!

Why new, when we have been operating in the refractories business for more than 170 years and have been listed on the Vienna Stock Exchange for nearly 20 years? I would like to point out five aspects that are important to RHI and its shareholders and clearly underline my classification as "New RHI":

>> With the successful sale of the Heraklith Group, RHI was able to bring the portfolio realignment and the focus on its original and future core competence refractories to a positive conclusion in the year 2006.
>> The capital restructuring agreed with RHI's banks in early 2002, whose core instruments were scheduled for five years, was completed in mid-2006, earlier and with higher repayments than originally planned. We reduced financial liabilities by some € 600 million, i.e. 60%, during this period.
>> Taking into consideration the outstanding convertible bonds, the balance sheet 2006 shows that the Group's equity improved by more than € 400 million on 2001 and is positive again for the first time.
>> Since early 2007 and with the support of all employees worldwide, the newly formed Management Board, which was extended by two experienced RHI refractories managers, has been working on RHI's new objective to raise the Group's revenue from the refractories core business from € 1.3 billion today to more than € 2 billion by the year 2010 through organic growth and targeted acquisitions, increasing its global market share beyond 15% this way.
>> Since the crisis in 2001, which threatened our very existence, RHI employees have proven year by year that they have the potential and the unconditional commitment, to dedicate themselves to the common RHI objective. They carry the vision of the new RHI and, following the successful restructuring, now support the management in the endeavour to extend RHI's global market leadership in refractories solutions through profitable growth.

However, "New RHI" also means the obligation to learn from the past of this company and to act with due diligence when it comes to implementing the growth strategy.

Thank you to all employees all over the world! I would also like to thank our employee representatives for the constructive cooperation. We established our common goals and values in a new RHI mission statement in 2006, which will form the basis for our work in the future:
"As a reliable and competent partner it is our constant aim to add value to the process of our customers by achieving the best price-performance ratio with our refractory system solutions. Our actions reflect our values and our corporate strategy."

I am convinced that our clients will appreciate not only the quality of our products and services but also RHI's new self-confidence. They will continue to honour our aggressive market penetration efforts and our offer to work together as partners. After the investments of the past years, we are in an excellent position today to offer customised solutions and service for regional specialists as well as globally operating groups in our client industries. We realise that the ongoing consolidation and globalisation among many of our customers also confronts us with a great challenge in the market.

The good result in the financial year 2006 encourages us to continue along the path we have chosen and to base our plans on profitable growth:

>> The 11% increase in revenue confirms that we have gained market share with our clear strategy.
>> The operative performance with an EBIT margin of 10% underlines that the earnings quality does not fall short of the growth target.
>> With a substantially reduced debt in 2006, which now equals the 2.3-fold EBITDA, we have generated the financial scope for the growth strategy.

Using the share price as a mirror of the capital market's judgement of RHI, I can draw two conclusions: the market and our shareholders honour what we have accomplished so far (this is how I interpret the increase in the share price since 2002 from € 7 to more than € 30), but at the same time they also expect the RHI growth story to continue beyond 2007. Our new targets correspond with this expectation!

I am optimistic regarding the current financial year. Our customer industries are still in a robust state, but not completely free of risk. Business development and the level of incoming orders in the first quarter of 2007 are positive and corroborate our expectations.

All the best!
Andreas Meier

RHI Group

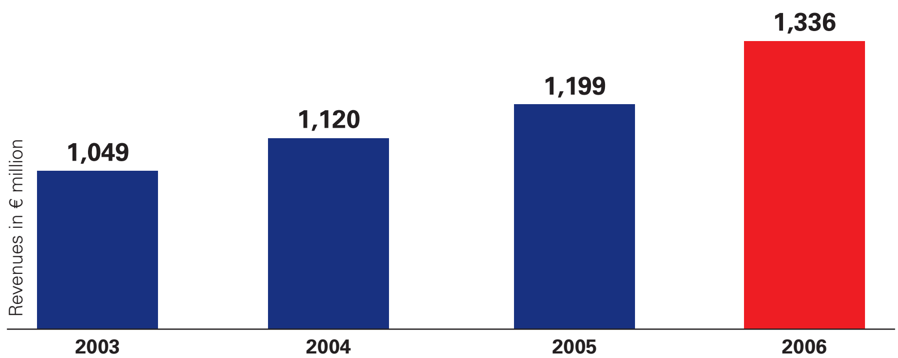
Following the capital restructuring in the year 2002, RHI also successfully completed the realignment of the Group portfolio with the sale of its Insulating Division in 2006. In the future, RHI will exclusively focus on refractories, its core competence, and consistently use the newly gained financial scope to build up its technology and world market leadership. RHI's objective is to increase the Group's revenue to € 2 billion by the year 2010 by taking advantage of all organic growth opportunities and through targeted acquisitions, while at the same time improving earnings quality continuously.

RHI Group

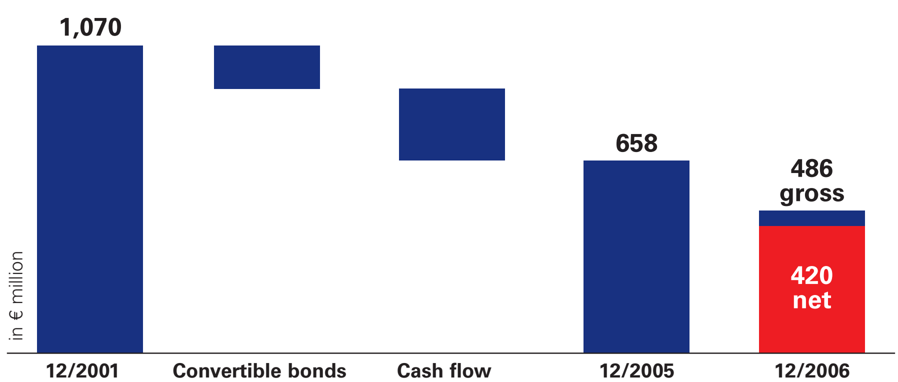
in € million	**2006**	2005	Change in %
Revenues	**1,335.8**	1,199.4	11.4
EBITDA	**179.5**	156.4	14.8
EBIT	**133.8**	115.5	15.8
EBITDA margin	**13.4%**	13.0%	3.1
EBIT margin	**10.0%**	9.6%	4.2
Profit before income taxes	**110.4**	92.6	19.2
Profit from continuing operations	**97.1**	82.8	17.3
Profit from discontinued operations	**60.8**	14.5	319.3
Profit	**157.9**	97.3	62.3
Employees	**6,526**	6,367	2.5

Key Facts

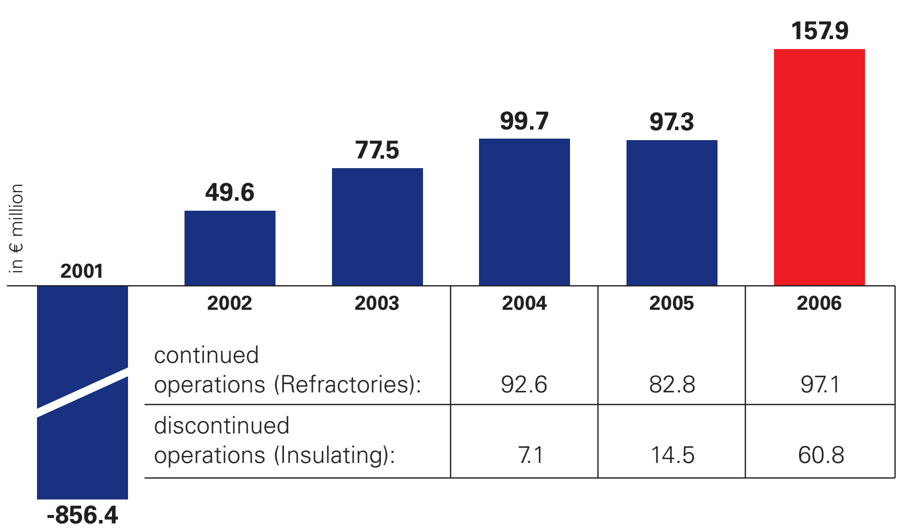
RHI is set to grow



Net financial liabilities down 60% since 2001



Development of Group profit confirms restructuring success



	2004	2005	2006
continued operations (Refractories):	92.6	82.8	97.1
discontinued operations (Insulating):	7.1	14.5	60.8

Strategy and Business Model

RHI restructuring completed

The financial year 2001 was the most difficult year in RHI's history. Asbestos claims against RHI companies in the USA threatened the Group's very existence. As a result of soaring working capital requirements to pre-finance the asbestos claims, debt in the RHI Group had risen to nearly € 1.1 billion in 2001. The liquidity crisis triggered the reorganisation of the RHI Group, which was introduced by RHI's newly formed management in late 2001 with two fundamental decisions:

>> Focusing the Group on its core business refractories, and within this segment on the firms outside the USA; sale of the Waterproofing, Engineering and Insulating Divisions.
>> Discontinuation of any financial support to the US companies due to the lack of liquidity in the RHI Group.

The subsequently necessary complete write-down and deconsolidation of all US refractories companies of RHI at 31 December 2001, which have been operating under US Chapter 11 since early 2002, led to a loss in the RHI Group in the amount of € -856.4 million and negative equity of € -548.6 million in 2001. On 15 February 2002, the proposal by the new management regarding a comprehensive restructuring of capital and portfolio was adopted at an extraordinary general meeting of RHI AG.

It was based on a long-term restructuring agreement with the financing banks, which has since proven to be a solid foundation for RHI's strategy, balance sheet and financial development. For the first five years and thus the first phase until the end of 2006, the agreement provided for € 400 million RHI bank liabilities to be converted into subordinated mezzanine capital free of interest and repayment, and a favourable margin to be charged on further credit lines for five years.

The RHI convertible bonds subscribed to by banks as a third element have clearly surpassed the targets after RHI's good performance: the banks significantly overcompensated the lost interest in the past five years due to the increase in the value of the convertible bonds; the result was a win-win situation for RHI and the consortium of banks. It is not least for this reason that RHI's restructuring is considered a model case of a reorganisation.

RHI exceeded all targets of the capital restructuring agreed upon. With the closing of the sale of Heraklith in June 2006, the Group's focus on refractories was completed earlier and with substantially better proceeds than expected. The agreed repayment of bank loans in the amount of € 500 million in five years was thus clearly surpassed at and amounted to € 584 million despite the high investment level in the refractories core business. Apart from the mezzanine capital in the amount of € 400 million, all loans pertaining to the capital restructuring were repaid ahead of schedule in 2006.

The mezzanine capital reconverted to interest-bearing liabilities to banks at 31 December 2006 will be repaid in a second phase in seven equal annual instalments by the end of 2013 as contractually agreed.

Strategy and targets of the new RHI

RHI has kept the promise it made in 2002; "RHI 2006: restructured and debt-free world market leader in refractories".

The positive development of RHI's results has shown that the decision to focus on refractories was the right and is a success. The profit of € 157.9 million in 2006 again makes an important contribution to strengthening RHI's balance sheet; the Group's equity improved considerably to € -64.5 million at 31 December 2006 (previous year: € -212.5 million). Taking into account the RHI convertible bonds converted since 1 January 2007 and those still outstanding, equity in the RHI Group is positive again at € 12.9 million.

Net financial liabilities were reduced substantially by € 216.7 million to € 419.7 million at 31 December 2006, which corresponds to the 2.3-fold EBITDA in the RHI Group in 2006. This key figure, which is important in the capital market, illustrates the regained financial scope, which RHI will now use to further strengthen its market position in refractories. In addition, lines of credit and financing options are available enabling RHI to take advantage of attractive market opportunities in the short term.

RHI's strategy is unequivocal: the objective is to consistently expand technology leadership and market leadership in refractories on a global basis, with these targets in harmony. When the success of the restructuring became evident in 2006, RHI defined its Vision 2010 more precisely based on the revenue of € 1.2 billion in 2005:

RHI intends to increase revenue by € 800 million by 2010 and to achieve an EBIT margin in excess of 10% and thus EBIT of over € 200 million.

The increase revenue totalling € 800 million in five years is to be accounted for equally through organic growth and acquisitions, each contributing roughly € 400 million. The two concepts are pursued simultaneously and mutually reinforce one another, for example:

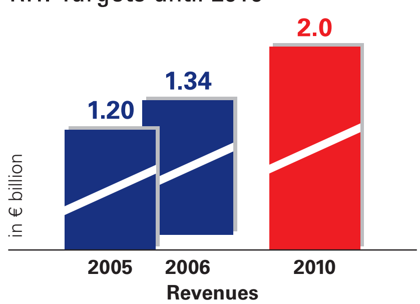
>> In China, RHI has consistently been investing in its own plants of RHI standard since 1996 in order to enable organic growth especially in Asia.
>> In India, RHI acquired a majority stake in the producer Clasil Refractories in 2006 to strengthen its presence in this very important emerging market.
>> In the USA, RHI signed a contract to acquire the assets of Monofrax Inc. in an asset deal in late 2006. Monofrax owns the only production of fused cast products for the glass market in North America. This production meets highest technological standards.

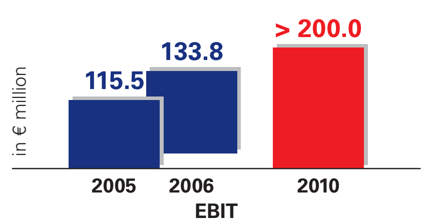
As these examples show, RHI will take opportunity of both concepts in the future in order to make optimum use of growth opportunities that are appropriate in terms of strategy and operations in the short term. Organic growth amounted to € 136.4 million or 11.4% in 2006 and proves that profitable growth above the market average is achievable for RHI.

RHI aims to increase its global market share in high-grade refractory products from some 10% today to over 15% in 2010. To achieve this aim technologically sophisticated refractory system solutions with the best price-performance ratio are indispensable. The core objective, i.e. to enable an improvement in the value added in the production processes of RHI's customers, is stipulated in the RHI mission statement. Increasing consolidation in our customer industries, as currently visible especially in the steel, cement and nonferrous metals industries, positively supports RHI's strategy.

RHI has clearly defined its targets in growth regions such as South America, Russia, Near and Middle East and Asia until 2010. The completion of the capital and portfolio restructuring has created the financial prerequisites to actively develop the new RHI geared to high earnings and cash flow.

RHI Targets until 2010





New refractories management structure

In January 2007, the RHI Management Board was extended by two members for the Steel and Industrial Divisions to support customer care and market penetration. RHI's reporting was adjusted to the new structure of responsibilities in the third quarter of 2006.

RHI reports on the segments "Steel", "Industrial" and "Raw Materials, Production, Other". The Steel Division supports steel customers worldwide from five regionally responsible business units and is also responsible for the key account concepts of globally operating steel companies.

The Industrial Division comprises the cement, lime, glass, nonferrous metals, environment, energy and chemical industries. RHI also supports globally operating groups in these segments in their growth and acquisitions worldwide as key accounts.

RHI's Raw Materials, Production, Other Division controls the strategically important value added in the mining, raw material and production sites, which predominantly supply the Steel and Industrial Divisions.

In many client industries and application areas RHI is the only refractories supplier in a position to meet the global challenge of increasingly consolidating customer industries in the areas of production, logistics, market penetration and service. RHI's entire global organisation is well-equipped to meet this new challenge.

RHI Share

RHI in the ATX of the Vienna Stock Exchange

RHI AG has been listed on the Vienna Stock Exchange since 1987, and has been a member of the Austrian Traded Index, ATX, since 1991. RHI is also a member of the PRIME MARKET of the Vienna Stock Exchange, which, since 2002, has included companies that have committed themselves to compliance with strict criteria governing transparency, quality and disclosure.

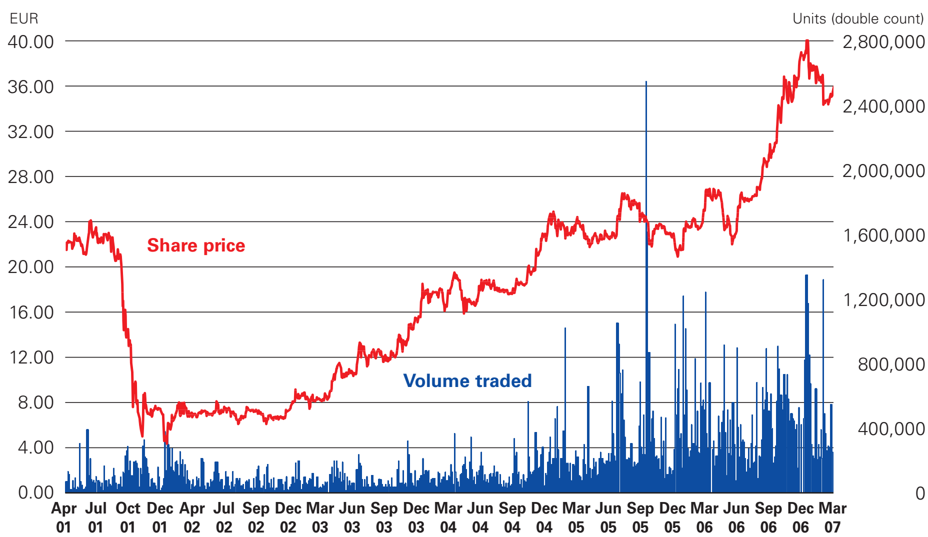
The level of interest shown by institutional and long-term investors continued to increase in 2006. The positive echo of the capital market to RHI's good performance and a clear strategy was again reflected in a significant rise in the liquidity of the share. Stock exchange turnover rose by 51% to 84.43 million shares in 2006, the stock exchange turnover by 75% to € 2,330 million.

Share price increased significantly

After a decline in the share price in 2001 following RHI's financial crisis, the RHI share hit a low of € 4.35 in January 2002. Following a successful restructuring of capital, a clear turnaround and a consistent portfolio reorganisation, the RHI share price reached the level prior to the crisis again by the end of 2005.

The Group's clear strategic reorientation and the focus on the refractories core competence as well as transparent finance communication formed the basis for a further substantial improvement in the share price. The RHI share reached a high of € 38.98 in 2006 and closed at € 38.70 on the Vienna Stock Exchange at 29 December 2006, up +69.7% on the previous year. The RHI share price thus clearly exceeds the level prior to the crisis in the year 2001.

RHI share price 04/2001 – 03/2007



RHI convertible bonds

At the extraordinary General Meeting on 15 February 2002, RHI AG's Management Board gained approval for capital increases as part of the capital restructuring programme to secure its capital structure long-term, enabling it to issue two subordinated convertible bonds of tranche A and B.

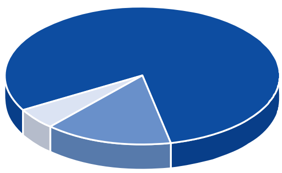
In April 2002, RHI AG's Management Board decided to use this authorisation to issue tranche A with a total nominal value of € 72.36 million, maturity up to and including 31 December 2009. Conversion was possible for the first time on 1 January 2007.

Furthermore, tranche B was issued with an identical nominal value of € 72.36 million, split into 1,809 convertible bonds with a nominal value of € 40,000, also maturing on 31 December 2009. Conversion of tranche B has been possible since 1 January 2003 at the beginning of each quarter and until 31 December 2009.

At 2 April 2007, a total of 2,315 of the 3,618 convertible bonds had been converted to 12,732,500 new RHI shares. The number of shares thus amounts to 32,652,539 at 2 April 2007. The complete conversion of all bonds will result in a total of 39.82 million shares of RHI AG.

New shares from the conversion of RHI convertible bonds A and B are eligible for dividends from the beginning of the business year in which they are issued.

RHI shareholder structure



- < 80% free float
- > 15% MS Private Foundation, Austria
- > 5% Wilhelm Winterstein, Germany

MS Private Foundation ("MSPF") informed RHI on 11 January 2007 that it held 1,108,500 shares at the time, was entitled to acquire an additional 4,268,000 shares based on option agreements and also held convertible bonds of tranche A entitling it to the acquisition of an additional 6,259,000 shares of RHI AG. If MSPF fully exercises its conversion rights, it can hold a maximum stake of 29.22% in RHI AG. MSPF also stated it was intent not to attain a controlling stake in accordance with the Austrian Takeover Act by exercising the options or the convertible bonds at any time.

The MS Private Foundation considers the shares, options and convertible bonds which it holds a long-term investment. MSPF is a foundation under Austrian law whose beneficiaries are Martin Schlaff and his family.

At 1 April 2007 the share of RHI voting rights attributable to MSPF registered in accordance with the Austrian Stock Exchange Act exceeded 15%.

Profit appropriation

At the Annual General Meeting on 1 June 2007, the RHI Management Board will propose to carry forward the accumulated profit of RHI AG in its entirety in order to strengthen equity and with a view to the ambitious growth targets. RHI's objective is to increase revenue to € 2.0 billion by 2010 through organic growth and targeted acquisitions and to raise its world market share to over 15%. There are good opportunities worldwide to expand market position and earnings power further in the coming years. Against this background, the new core shareholder, the MS Private Foundation, has clearly indicated that a dividend proposal will not be supported at the RHI Annual General Meeting.

RHI Share: Key figures

in €	2006	2005	Change in %
Share price at year-end [1]	**38.70**	22.80	69.7
High [1]	**38.98**	26.50	47.1
Low [1]	**20.90**	21.75	-3.9
Average [1]	**27.37**	23.66	15.7
Number of shares (in million units)	**27.08**	25.94	4.4
Stock exchange turnover (in million units)	**84.43**	55.99	50.8
Stock exchange turnover (in € million)	**2,330**	1,333	74.8
Market capitalisation (in € million) [2]	**1,048**	591	77.3

1) Closing price at Vienna Stock Exchange

2) at year-end

Information on RHI

The Investor Relations department of RHI AG is available to answer queries from all shareholders and capital market participants relating to the share and the company. In accordance with the Corporate Governance Code, all important information and financial reports are also available on the Internet at www.rhi-ag.com.

Shareholder hotline:	+43 / 1 / 50213 6123
Shareholder fax:	+43 / 1 / 50213 6130
E-mail:	rhi@rhi-ag.com
Internet:	www.rhi-ag.com
Reuters:	RHIV.VI
Bloomberg:	RHI

Capital market key dates 2007

25 April 2007 Result 2006
3 May 2007 Result Q1/2007
1 June 2007 RHI Annual General Meeting
26 July 2007 Half-year result 2007
24 October 2007 Result Q3/2007

ISIN

RHI share:
AT0000676903
RHI new shares from conversion 2007:
AT0000A03FL5
Convertible bond tranche A:
AT0000443049
Convertible bond tranche B:
AT0000443056

Corporate Governance

Since 1 October 2002, the Austrian Code of Corporate Governance has given Austrian companies a framework for the management and supervision of a company. With effect from January 2006, the Code has been revised and essential items have been developed further.

The Corporate Governance Code advocates a system of management and supervision of companies aimed at achieving accountability and creating long-term, sustainable value. This is intended to provide a company's stakeholders with a high degree of transparency and to serve as an important guide for national and international investors.

The Code is based on Austrian stock corporation law, stock exchange and capital market regulations, important EU recommendations, and its principles follow the OECD's guidelines for Corporate Governance.

RHI supports the Code's objectives to strengthen the confidence of domestic and foreign investors in the Austrian capital market by providing more transparency and uniform standards. In addition, RHI advocates the statutory provisions to prevent insider trading and has implemented the Securities Issuer Compliance Regulation, which entered into effect on 1 April 2002 and was revised at 2 May 2005, in the company.

RHI's Boards meet regularly to discuss the Corporate Governance Code as amended. The Code's regulations and recommendations are met to a very great extent by RHI. RHI ensures transparency as required by Figure 60 of the Code by adding a statement to the annual report and by publishing it on the company's website.

The Austrian Code of Corporate Governance is available on the Internet at www.corporate-governance.at

Report of RHI AG of 27 March 2007 on the Austrian Code of Corporate Governance

RHI respects the Austrian Code of Corporate Governance and undertakes to comply with the provisions documented therein. The Code comprises the following rule categories:

1. Legal Requirement (L):
The rule refers to mandatory legal requirements.

2. Comply or Explain (C):
This rule is to be followed; any deviation must be explained and the reasons stated in order to be in compliance with the Code.

3. Recommendation (R):
The nature of this rule is a recommendation; non-compliance with this rule requires neither disclosure nor explanation.

Information to be disclosed in accordance with the Austrian Corporate Governance Code:

Figure 30 Corporate Governance Code (Comply or Explain):
Information regarding the principles of remuneration of the Management Board

>> **Principles for granting performance-linked payments to the Management Board and performance criteria:** The variable portion is linked to the targets of EBIT and cash flow from results.
>> **Relationship of fixed to performance-linked components of total compensation:** Up to approx. 50% of total compensation is variable.
>> **Principles of the company retirement plan:** Principle of deferred compensation, no defined benefit plan.
>> **Principles of eligibility and claims in the event of termination of the function:** No claims beyond the Management Board contract.

Figure 39 Corporate Governance Code (Comply or Explain):
Appointment to committees (capital representatives)

Auditing committee:
Auditor G. Peskes (finance expert)
M. Gröller

Nomination committee:
M. Gröller
Auditor G. Peskes

Compensation committee:
M. Gröller
Auditor G. Peskes

Figure 51 Corporate Governance Code (Comply or Explain):
Remuneration of the Supervisory Board

In accordance with § 15 of the articles of association of RHI AG, the Supervisory Board members receive a remuneration payable at the end of a financial year, the amount of which is determined by the Annual General Meeting. The distribution of the remuneration determined by the AGM is effected in such a way that the Chairman of the Supervisory Board receives the 2.5-fold amount of an ordinary Supervisory Board Member, and the Deputy Chairman of the Supervisory Board receives the 1.75-fold amount, on a pro-rata-temporis basis.

Figures 53, 54 + 58 Corporate Governance Codex (Comply or Explain): Independent Supervisory Board members, period of office

Independent RHI AG Supervisory Board members in accordance with the criteria established by the Supervisory Board, to be found on the company's website (www.rhi-ag.com) are:

	First appointment	End of period in office
M. Gröller, Chairman	15 February 2002	Annual General Meeting 2007
G. Peskes, Deputy Chairman	1 July 1999	Annual General Meeting 2009
G.K. Gregor	15 February 2002	Annual General Meeting 2007
C. Grupp	4 July 2002	Annual General Meeting 2007
E. Schaschl	27 May 1999	Annual General Meeting 2009
S. Prinz zu Sayn-Wittgenstein-Berleburg	17 May 2001	Annual General Meeting 2009
K. Waniek	1 June 2006	Annual General Meeting 2009

None of the above Supervisory Board members holds more than 10% of the shares of RHI AG or represents the interests of such a shareholder.

Figure 58 Corporate Governance Code (Comply or Explain):
Disclosure of other supervisory board mandates for other listed companies

This information is available on the company's website (www.rhi-ag.com).

A RHI deviates from the recommendations of the Corporate Governance Code in the following point:

Figure 31 Corporate Governance Codex (Recommendation):
Wording of the Code: The compensation of the Management Board is to be reported separately.
RHI's comment: The decision to publish personal remuneration lies with each individual member of the Management Board, remuneration is therefore not published in the annual report.

RHI AG
Management Board

Sustainability

Assuming responsibility

All commercial activities are inextricably linked with responsibilities, which nowadays are usually summarised under the term "Corporate Social Responsibility". Entrepreneurship influences many areas of society, always touching on economic, ecological and personal issues. In addition to considering those who are more or less directly affected by our actions, one has to consider indirect effects, particularly the environmental impact of production and products on stakeholders and the environment, today and tomorrow.

As this long-term perspective is considered when making decisions today, Corporate Social Responsibility equates sustainability for us. Stemming from a century-long tradition and its close links with its local roots at many locations worldwide, RHI has always been mindful of its responsibilities in terms of "Corporate Citizenship".

To give the objective of assuming responsibility in our everyday actions an understandable and at the same time binding character RHI has formulated a new mission statement for the Group, which is based on three central values. These values are equally accepted in all culture areas RHI operates in. They are therefore to serve as a guideline for the daily individual actions of all people working in the RHI Group worldwide.

The mission statement is the result of a broad internal discussion involving the management and employees from different regions of the world, as well as employee representatives.

RHI mission statement

We are the world's leading supplier of high-grade ceramic refractory products and services.

As a reliable and competent partner it is our constant aim to add value to the process of our customers by achieving the best price-performance ratio with our refractory system solutions.

Our actions reflect our values and our corporate strategy.

Our values are:

>> Power of innovation
>> Openness
>> Reliability

Power of innovation: We achieve an economic advantage for our customers through our global technology leadership. We therefore allocate substantial funds and know-how in the form of personnel resources in order to expand this leadership further.

RHI's innovation culture goes far beyond the research & development segment. All activities relevant to the company are regularly questioned and developed further. All parties involved are integrated along the value added chain and assume responsibility.

All our entrepreneurial activities pursue the clearly defined long-term objective to create added value for our stakeholders. We have therefore defined a consistent growth strategy and consider it a prerequisite for our sustainable success.

Openness: As a listed company, we are committed to active, open communication with all our stakeholders.

Openness is a leading principle in our corporate culture. It is expressed by dealing respectfully with the different cultures of our customers and employees worldwide.

A continuous exchange between management and employee representatives creates a common understanding while taking into consideration the interests of individuals.

Reliability: The high international reputation of the RHI Group and its brands established in the market obliges us to absolute professionalism, universal quality standards and responsibility towards society as Corporate Citizen.

Our high quality standards in everything we do form the basis for our customers' trust in working efficiently and safely with our products and services. Our production processes are keyed to minimising direct and indirect environmental impact.

We promote the personal and professional development of our employees and expect independent actions as a decisive contribution to implementing our vision.

Our objective: economic success through profitable growth.

IMS und quality management

In 2001, RHI implemented an Integrated Management System (IMS) merging existing quality management, environmental protection, safety-at-work and industrial health programmes. The IMS programme has been introduced at all European sites since 2004. The new plant in Bayuquan, China was integrated in 2006. The objective is to extend the programme to all locations worldwide based on the underlying concept

- >> to simplify all processes to avoid redundancies;
- >> to create clear structures and responsibilities;
- >> to improve legal security;
- >> to minimise potential risks for employees and the environment.

Quality management is of prime importance in production and in all company processes. RHI builds on its extensive knowledge of customer requirements, employee expertise and know-how, attention to highest quality standards and constant innovation through its own research & development activities. Production processes are constantly improved technically, as is the infrastructure in and around quality assurance.

The ISO plant in Dalian, China and the ISO production in Trieben, Austria were added to the locations networked in RHI's quality assurance system QLS/CAQ in 2006. All RHI locations worldwide are certified under ISO 9001:2000.

Certified environmental management

In keeping with our values, we always strive to minimise direct and indirect environmental impact. Even at the early stages of product development, great attention is paid to the environmental implications of refractory materials in customer aggregates. In fact, the environmental compatibility and recyclability of products while and after being used by customers is increasingly becoming a competitive criterion.

By implementing certified environmental management systems we managed to continuously improve effectiveness when using raw materials, supplies, energy and transport. Our system, which records and evaluates environment-related data, has already accelerated key environmental improvements. Currently two thirds of all RHI production sites and jobs worldwide are certified in accordance with the environmental standard ISO 14001:2004.

Health and safety at work

We pay great attention to the safety, health and performance as well as the individual stress on RHI employees. The activities are based on a safety and health management concept, which is oriented on the internationally recognised Luxembourg Declaration on Workplace Health Promotion.

Permanent improvement of standards far beyond legal requirements, gaugeable targets and their constant evaluation within the framework of long-term programmes are paramount. The objective is to identify health potential and risks and to establish a process of change. This process aims to lead to a healthy lifestyle, thus improving the situation at work and in the spare time of those affected in the long term. The ability of the individual to shape their individual health and their motivation to health-conscious behaviour should be enhanced further. A virtuous cycle of responsibility for oneself is created and reinforced.

The evaluation examines the effectiveness of the measures, programmes and projects implemented by RHI using scientific methods. The findings to date and their sustainable implementation confirm the success. Very low absenteeism in comparison with the industry and greatly reduced number of accidents are a win-win situation for RHI and its employees.

Concrete projects in the RHI Group are:

- >> "Wide angle": apprentices take photos of hazardous situations and conditions at the workplace in order to raise awareness and attention, thus reducing the number of "near-accidents";
- >> Stress test by biofeedback: the staff of a location is tested with a view to behaviour under stress and coping with stress by means of biofeedback. In personal interviews with occupational doctors and occupational psychologists changes are discussed and initiated;
- >> PROFIT week for apprentices: a health promotion week consisting of spine training, cardiovascular training, coping with stress, work-life balance for team building and teaching self-responsibility;
- >> Health & safety on the intranet: information on industrial safety and health is available to all employees in the Group;
- >> Economics of health: Economics of health has been taught for a short time at the university of Krems with the objective to complement occupational medicine with a view to business management aspects; RHI is playing a leading role in teaching and the implementation of this topic.
- >> Future competence: safety, health and self-competence as well as self-responsibility of the employees are focused on the objective "future

competence" in order to launch and promote the self-responsibility process.

The European Union has recognised the project "Future Competence". For the second time in five years RHI was awarded a prize for innovative and sustainable projects in the area of occupational safety and health.

Sustainable facts and success stories

7.5% of the total investments of the RHI Group were directly related to the areas of occupational safety and environmental conservation in the financial year 2006. Important projects included:

>> Radenthein plant, Austria: More than € 1 million was invested in the project thermal afterburning to reduce exhaust pollutants;
>> Locations in Austria, Germany and Scotland: € 330,000 was invested in fire protection systems;
>> Breitenau and Hochfilzen plants, Austria, and Burlington, Canada: dedusting equipment worth € 290,000 was installed;
>> Breitenau plant, Austria: The RHI logistics concept, which was awarded the Austrian State Prize, was introduced; investments in the amount of € 225,000 significantly reduced the number of trucks driving to the plant;
>> Marone and San Vito plants, Italy: programmes focusing on improving occupational safety and environmental protection with investments of € 185,000 were implemented.

R&D as key to sustainability

Based on a systematic innovation management, RHI is expanding the technology leadership in refractory materials, products, solutions and processes, thus improving the economic and ecological balance in keeping with the RHI mission statement.

The required profound understanding of physical and chemical properties of refractory materials and products, and detailed knowledge of the course of products' wear processes in interaction with customer processes, are results of RHI's decade-long R&D activities.

In raw material development, special attention is paid to increasing material efficiency and recovering nearly all fines and by-products generated in treatment and production. RHI has operated sustainable mines to extract refractory raw materials with optimal deposit use for many decades. Only the really relevant areas in deposit are mined on the basis of state-of-the-art geostatic models.

In the sintering processes, in which raw magnesite is fired and, following additional treatment, separated into different qualities, by-products are also recycled as raw materials and used in the steel, chemicals and construction materials industries.

Special importance is attached to continuously improving the manufacturing methods for refractory products. In this, the focus lies on reducing scrap and enhancing process safety. Another important element is the reduction of gaseous emissions and dusts.

To ensure more systematic investigation an R&D expert group for process technology is in charge of dealing with this issue.

Hazardous substance assessments are made for both existing products and methods and the development of new products to prevent the use of raw materials, binding agents and methods that are detrimental to the environment as far as possible. Within the framework of IMS, targets are set every year and regularly assessed together with the management. For example:

>> use of new, less harmful binding agents for carbon-bonded shaped products for the steel industry;
>> development of chrome-free products for customers in the steel, cement and nonferrous metals industries.

In the past years, specific consumption of refractories has declined significantly as a result of the development of products with higher durability and process improvements in the customer industries. In the steel industry specific refractories consumption has been more than halved in the past 30 years by applying new products.

The decline in refractories consumption led to a reduction in waste material removed from customers' kilns. Moreover, these materials can today be partially recycled in the production of refractories. RHI is actively promoting the development of such recycling concepts.

US Chapter 11-Proceedings

The Chapter 11-proceedings of the US refractories firms NARCO, Harbison-Walker, AP Green and GIT, which were deconsolidated at 31 December 2001, are ongoing. These firms are no longer considered subsidiaries of RHI, as RHI AG no longer exercises control over them due to the Chapter 11-proceedings initiated by US companies at the beginning of 2002.

RHI AG and several RHI affiliates entered into settlement agreements on 9 April 2004 with the previous US owners, Honeywell and Halliburton / DII, and with the companies that are operating under Chapter 11 themselves in order to finally clarify unresolved issues, earlier contractual agreements as well as mutual claims and claims of third parties.

The agreements regulate RHI's relinquishment of receivables from the US companies prior to the Chapter 11-proceedings and the relinquishment of all shares in the US companies in the course of the completion of the Chapter 11-proceedings. As RHI wrote down all accounts receivable and carrying values of related investments in the financial statements 2001, these agreements will not adversely affect RHI's results.
A condition to the settlement agreement is a USD 40 million payment by Honeywell to RHI Refractories Holding under a prior contract related to NARCO's Chapter 11-proceedings.

In January 2005, RHI AG and its affiliates became beneficiaries with legal security of the channelling injunctions of the DII reorganisation plan. This was approved by the competent court in the course of the Chapter 11-proceedings which DII filed for in late 2003. With the completion of the DII proceedings, all present and future asbestos and silica-based claims against the former RHI subsidiary Harbison-Walker were finally transferred with legal security to the DII trust funds. DII fulfilled its contractual obligations to RHI at 24 January 2005 with a payment of USD 10.0 million. A substantial part of the claims against former RHI affiliates in the USA have therefore finally been settled.

On 15 September 2005, the companies operating under Chapter 11 submitted changed plans of reorganisation to the court, which fully included the agreements from 2004. After NARCO submitted an amended reorganisation plan to the court, which was also accepted by Honeywell, Honeywell paid USD 20 million to RHI on 30 December 2005 as contractually agreed. In 2002, Honeywell had committed to pay a total of USD 100 million once certain conditions relating to the NARCO's Chapter 11-proceedings were met. The remaining USD 40 million become due when NARCO's Chapter 11-proceedings are also completed successfully.

The plans of reorganisation were sent out for approval on 10 February 2006, along with a document explaining them. The approval rate of all creditor groups exceeded the required minimum level by far in each case. The final objection period against the plans ended on 12 May 2006. The confirmation hearing initially scheduled for June 2006 by the court was postponed to 26 October 2006 in order to clarify claims made by a small group of creditors against the companies operating under Chapter 11, which, in the opinion of the court, can currently not be fully assessed. An expert was called in for this purpose. At this hearing and further hearings in November 2006 and January 2007, unresolved issues were dealt with; however, the court has not yet issued a final statement regarding this matter.

On 16 March 2007, the objections of two insurance companies against the plans of reorganisation were discussed at the continued confirmation hearing. It is currently uncertain when the court will decide on the confirmation. The decision is expected during the second quarter of 2007.

If the court gives its final approval to all reorganisation plans, RHI AG and its companies will receive full legal security with respect to all remaining claims against the US companies operating under Chapter 11. In addition, RHI AG and its companies will become beneficiaries of the channelling injunctions based on the plans of reorganisation. All existing and future asbestos-related claims against the deconsolidated US companies would then be completed with full legal security. Amongst other things, the settlement agreements of 2004 provide that the reorganisation plans enter into effect as soon as Honeywell pays the remaining USD 40 million to RHI.

Management Report*

RHI is the global market and technology leader for refractories and has an optimised worldwide network with more than 100 locations for production and sales on four continents. Customers in more than 180 countries in key industries such as iron, steel, cement, lime, nonferrous metals, glass, energy, environmental technology and chemicals have trusted in RHI's expertise in refractory system solutions for over 100 years.

RHI Group

in € million	**2006**	2005**	Change in %
Revenues	**1,335.8**	1,199.4	11.4
Segment Steel	**815.8**	735.8	10.9
Segment Industrial	**463.2**	408.9	13.3
Segment Raw Materials, Production, Other	**884.7**	792.0	11.7
Consolidation	**-827.9**	-737.3	-12.3
EBITDA	**179.5**	156.4	14.8
EBIT	**133.8**	115.5	15.8
Segment Steel	**68.3**	59.7	14.4
Segment Industrial	**58.3**	49.1	18.7
Segment Raw Materials, Production, Other	**7.2**	6.7	7.5
Employees	**6,526**	6,367	2.5

* *As in previous years, use was made of the option under § 267 (4) UGB (Austrian Commercial Code) and § 251 (3) UGB to summarise the management report of RHI AG together with the consolidated management report. RHI AG had no branches in the reporting period.*

** *The figures reported for the financial year 2005 had to be adapted due to changes in the IAS-rules 19 and 21. Therefore, EBIT fell from € 117.8 million to € 115.5 million.*

Business Development

Framework conditions for refractories

RHI concentrates on high-grade ceramic refractories solutions for industrial applications which require high-temperature processes to produce iron, steel, cement, lime, glass, nonferrous metals, energy and chemical products or to treat waste material.

The fact that refractories are consumable goods rather than capital goods is fundamental when assessing the global refractories market development. Refractory material is constantly consumed in ongoing production of the client industries; durability ranges from a few hours or batches in steel production to more than ten years in glass tanks. The share in RHI's revenue which is accounted for by new plants and can thus be subject to economic investment cycles amounts to approximately 10%. The volatility of product prices in RHI's customer markets, which in 2006 was very high in nonferrous metals again and declined in many steel sectors due to increased production and price discipline, has only little influence on the refractories development.

Rather, the following aspects are decisive for the market volume and quality of refractories consumption and thus the growth potential worldwide:

>> At which capacity level are customer plants operated?
>> What is the technological state of these plants?
>> To what extent is the refractories industry itself advancing its "learning curve"?
>> How is the consolidation in client industries worldwide developing?
>> In which regions and industries is refractories growth taking place?

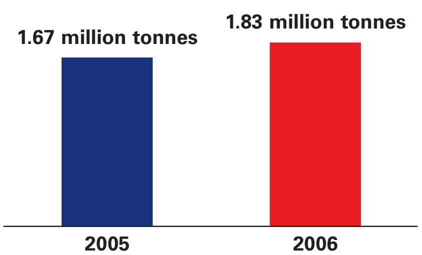
Megatrends and sales volume development

The global framework for the refractories industry worldwide was good overall in 2006 on the market side; capacity utilisation at customer plants was above average. In the steel and cement industries for instance, plants were upgraded and extended especially in growth countries, thus causing a steady increase in demand for high-grade refractories. Through improved durability the learning curve effect is enhanced: more steel, cement, etc. can be produced with less, but higher-grade, refractory material. RHI benefits from this trend and promotes it as technology leader. Consolidation among customers, especially in the steel and cement industries, reinforces this development and leads to modern plants worldwide. The improved product quality many customers strive for also requires more high-grade refractories. This underlines the concept established in the RHI mission statement to offer refractory system solutions with the best price-performance ratio for an improvement in the value added in our customers' production.

For example steel, accounting for 61% of RHI's revenue and thus still the most important client industry: in 2006, crude steel output rose to 1,240 million tonnes, i.e. by 8.6%. 419 million tonnes (+18%) or 33.8% were produced in China. Adjusted for China, worldwide steel output increased by 4.3%. Considering the effect of the learning curve, refractories demand for the steel industry thus grew by some 6% globally, without China by approximately 3%. Sales volume in RHI's Steel Division was up an above-average increase of 10% worldwide in 2006. Since RHI has only selectively worked the Chinese steel market, RHI recorded a very positive market share gain in 2006 for steel customers.

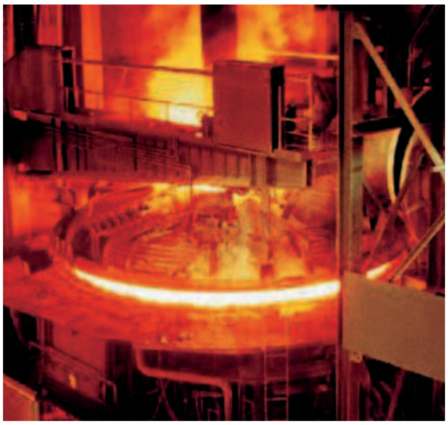
The output of customers of RHI's Industrial Division with the business units cement, lime, glass, nonferrous metals, energy, chemicals and environmental technology also grew again in 2006, though varying regionally. The data are difficult to quantify. In growth regions such as Asia, Near and Middle East, Eastern Europe as well as Central and South America, increases of up to 10% were reported especially for cement and individual nonferrous metals in 2006. RHI estimates that Industrial refractories demand rose by some 3% worldwide in 2006; analogue to the steel segment, this figure also takes into account the effects of upgrades and the learning curve. As with the Steel Division, RHI Industrial increased the sales volume by more than 10% in 2006, with cement, lime and nonferrous metals contributing overproportionally. RHI thus also increased its market share with Industrial customers in nearly all application areas.

RHI refractories sales volume



At 1.83 million tonnes (previous year: 1.67 million tonnes), refractories sales volume was up a positive 9.6% in 2006. The Raw Materials, Production, Other Division sold 3% less raw material to third parties, while RHI's own requirements grew significantly. RHI's success in the market was based on consistent market penetration efforts and pricing policy, as well as competitive refractories solutions for nearly 10,000 customers in more than 180 countries.

Steel Division



Excellent successes in the Steel Division in 2006

At € 815.8 million in 2006 (previous year: € 735.8 million), refractories deliveries and services for steel customers accounted for 61% (previous year: 61%) of RHI's consolidated revenue. The 10.9% increase reflects the overall positive production development in the steel segment and market share gains for RHI. EBIT of the Steel Division recorded above-average growth by 14.4% to € 68.3 million (previous year: € 59.7 million) due to quantity and pricing effects as well as active cost management; the EBIT margin improved to 8.4% (previous year: 8.1%).

The steel market was again characterised by a substantial increase in output by 8.6% worldwide, massive growth in China by 18% and the intensified globalisation process of the industry in 2006. The takeover of Arcelor by Mittal Steel marked a significant development in the consolidation of the steel industry with an impact on the market and also RHI.

Arcelor-Mittal emerged as the largest steel group with an output of more than 110 million tonnes p.a., 61 steel works and 330,000 employees. Accounting for 9% of world steel production, Arcelor-Mittal is now the clear number 1, ahead of Nippon Steel; in addition, it is RHI's largest customers and one of the globally serviced key accounts of the Steel Division.

In early 2007, India-based Tata Steel acquired the British-Dutch Corus Group, the second-largest takeover in the steel sector. With an output of 23 million tonnes p.a., the world's fifth largest steel producer was created. The group is also an important RHI customer.

With its globally acting key account management, the Steel Division has been well prepared for the consolidation in the steel industry, which is now accelerating.

RHI presence in all regions of the world

Steel output in **Europe** (EU 25) was up 6% in 2006 and characterised by increases in the countries of production Germany, Italy and Great Britain, and above-average growth in the new EU countries Poland, Slovakia and the Czech Republic. Despite the ongoing fierce competition for European steel customers, RHI's market position continued to improve in 2006. The increase of nearly 9% in both volume and sales revenue exceeds the growth rates of steel production and – considering constantly prolonged product durability – also refractory market growth.

The ongoing positive development in steel production in the **CIS** continued in 2006; output was up 6% to 120 million tonnes. RHI stepped up its sales activities in this region, causing revenue to increase by 45% in 2006. The RHI sales office in Moscow, which was opened in 2004, and a new office in the Ukraine contributed significantly to the market success in this emerging region.

Following years of substantial growth, the increase in steel output in the **Middle East and Africa** was moderate at 2% in 2006. RHI improved its good market position despite increasing competition from refractories suppliers from China and increased revenue by 5%.

The steel market in **North America** revitalised in 2006, and steel output was up 3%. This development was marred by a considerable decline in production in late 2006, which was attributable to high stock levels and weak automotive and construction industries in the USA. RHI again reported an above-average increase in business volume; revenue was up an excellent 22%. Client-specific solutions and packages providing machinery and services in addition to refractory products contributed to the success, as did a transfer of knowledge from technical and marketing experts within the global network of RHI's Steel Division. New capacities at the RHI plants in China were a positive support for the stepped-up market penetration efforts.

Steel production in **Central and South America** in 2006 remained at the level of the previous year, RHI's revenue was up 1%. Increased capacities and government measures to stimulate growth will only take effect in the course of this year. The economic stability of the region and the credit ratings of steel customers developed positively. Numerous new projects and planned capacity increases offer good market opportunities.

The global development of the steel market is still determined by great demand in **Asia**. RHI increased revenue in the region by 18% in 2006. With an output of 419 million tonnes and a world market share exceeding 33%, China is by far the largest steel producer worldwide. On top of that, China reported an export surplus of 34 million tonnes with total exports amounting to 54 million tonnes of steel in 2006. There are overcapacities in steel and refractories in China, and the market is still highly fragmented. Therefore competition and pressure on prices continue unabated in both industries. China's goal is to consolidate its more than 250 steel manufacturers with 900 steel production plants to a large extent in order to develop competitive steel groups.

As, parallel to this development, modernisation will be necessary to improve steel qualities in China, demand for high-grade refractories will increase continuously. However, this trend will be overlapped by the learning curve effect entailing a substantially lower specific refractories consumption per tonne of steel, which will in turn lead to a rise in refractory overcapacity in China. With its own local production at three plants, RHI is well positioned for this change and the enormous potential sales volume in China. Currently, the Steel Division is focusing only on the commercially attractive high-grade segments and customers, which can already optimise their production processes technically and economically based on RHI solutions.

Good utilisation of steel capacities, the trend towards higher steel qualities and newly planned steel works projects are opening up excellent market potential for high-grade refractory materials in India as well. RHI significantly extended its revenue again by 25% in this emerging market in 2006. Other emerging countries in Asia, where the per capita consumption of steel is, like in India, two thirds below that of China and about 10 times lower than in Europe, Japan or South Korea, also produce increasingly more steel. RHI Steel, with its business units Asia/Pacific and China, is well positioned in all emerging markets and recorded market share gains in 2006. The market is worked through the plants in Europe, China and, starting in 2007, through the new capacity of RHI Clasil in India. Thus, a further optimisation is achieved in terms of costs and logistics.

Partnership through Innovative Services

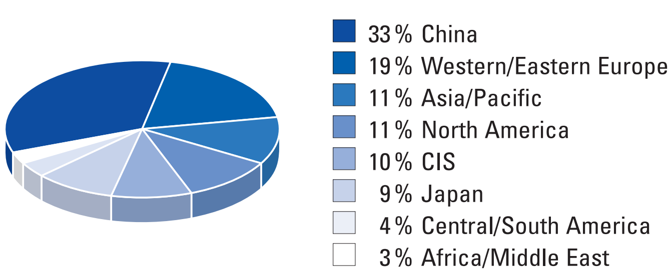
RHI's mission to be a partner for refractory system solutions has been followed in the Steel Division for over 10 years through the Innovative Services concept. Excellent products form the basis while individual solutions and competent advice at the steel works are the key to long-term partnerships. RHI is focusing its entire know-how on making offers for contract business and full line services. Both models enable steel producers to concentrate on their steel core competence.

In contract business RHI assumes the complete refractories management in defined production segments of the customers on a contractual basis: FOS (Furnace Ownership), LOS (Ladle Ownership), TOS (Tundish Ownership), FCS (Flow Control Systems and Service) are models, in which RHI is in charge of converters, electric furnaces, ladles, tundishes or flow-control equipment. If the customer is prepared for strategic refractories outsourcing and an active change in organisation, RHI also takes over refractories management for an entire steel works in a full line service contract. This requires a close working relationship and a contract over several years. It was an important RHI objective in 2006 to develop this business further.

In the Innovative Services model, RHI offers a price per tonne of steel ("cost per tonne") for the refractories management. The customer thus does not pay for RHI's material or working hours, but an amount based on the output of an aggregate or steel works per tonne of steel produced, which provides a high level of calculation security. RHI has the experience to optimise customers' refractories management in such a way that less material and downtime is required. The cooperation thus leads to a win-win situation, which is economically attractive for both parties.

This way, RHI's extensive experience with customer processes and the targeted application of expertise allow for customised package solutions and offer the customer – fully in accordance with the RHI mission statement – an optimisation of the value added.

World steel production 2006



Flow Control gains significance

In addition to Innovative Services, special attention is paid to expanding the flow control market segment. Refractories for flow control are an important component for the performance at steel works; here, RHI provides special products and process-oriented system solutions for continuous casting plants.

The products and system packages distinguish themselves through technical complexity and very high quality standards to ensure the manufacturing of high-quality steel at any time. Flow control comprises the product groups slide gates, isostatically pressed functional products and the refractory lining of the tundish.

Isostatically pressed functional products for continuous casting plants (ISO products) hold a strategically important position in RHI's portfolio. The demand for ISO is growing continuously worldwide; in Asia, particularly in China, demand for high-grade products for better steel quality is soaring. In July 2006, RHI commissioned a new ISO factory in Dalian, China, which is now RHI's third ISO production base worldwide.

The Swiss company Stopinc AG, in which RHI holds a 50% stake, made another important contribution to RHI's flow control strategy in the 40th year of its existence. The combination of the mechanical systems of Stopinc with refractories by RHI allows for innovative solutions to extend RHI's technology leadership and market position in slide gate systems.

The products of the newly patented CS generation for steel-casting ladles have been very successful in the market and are generally sold in combination with Innovative Services contracts of several years.

RHI and Stopinc are consistently working on new system solutions to help improve the efficiency of customer processes, as well as the quality and efficiency of steel production. RHI's Steel Division will, in close cooperation with RHI Research & Development, continue to protect the new solutions by patents and trademark rights in order to secure RHI's competitive advantage in the long term.

Gunning robot ConRep introduced

Successful practical tests of RHI's converter gunning robot ConRep marked the completion of an important development project. With ConRep and ConScan, a laser-based residual thickness measuring system, a market-leading package solution is now available to steel customers. With a maximum automation level it reduces repair times by half, thus increasing converter availability significantly. The result is an improvement in the value added in the customer process thanks to RHI's technology.

ConScan measures the thickness of the refractory lining immediately after the liquid steel has been drained from the converter at a temperature exceeding 1,000 °Celsius. Based on this measurement, a gunning robot can perform a repair automatically or manually controlled. In this process, high-tech gunning mixes specially developed for ConRep are applied. Following a successful test with key account customers, this solution will be available to all steel partners worldwide in the future and supports RHI's market share targets for converter gunning mixes considerably.

ConRep and ConScan illustrate that modern refractories management goes far beyond providing material for customers' kilns. The cooperation as partners between RHI and its clients today is based on client-specific solutions, which are improved continuously.

Industrial Division

Industrial also very successful in 2006

Refractories deliveries and services of the Industrial Division with the business units cement & lime, nonferrous metals, glass and environment, energy chemicals contributed € 463.2 million (previous year: € 408.9 million), i.e. 35% (previous year: 34%), to RHI's consolidated revenue in 2006. The 13.3% increase reflects the globally robust market situation in the client industries and market share gains for RHI. The Industrial Division's EBIT rose above average by 18.7% to € 58.3 million (previous year: € 49.1 million) as a result of stepping up package and service solutions. The EBIT margin improved to 12.6% (previous year: 12.0%).

All Industrial business units are responsible for their markets worldwide and support globally operating key accounts from one source. The level of consolidation in the Industrial markets is already substantially higher than in the steel segment. Therefore, the modernisation of production facilities has advanced significantly. This also applies to China, India and many other emerging countries in Asia and other regions, which have a growing need for high-grade refractories. The Industrial Division is well positioned for the progressing consolidation and the growth in its customer industries.

Cement & Lime

The cement industry experienced a recovery in Western Europe in 2006. Cement capacity utilisation was especially good in Germany, and RHI's business development was very positive in this environment. In Eastern Europe, RHI increased its market share through its leading edge in technology and service in an attractive market environment. In Central and South America, RHI recorded very good growth again; high cement exports from Mexico to the USA and the construction cycle in the region contributed to a high level of capacity utilisation and a reactivation of cement plants. In the growing cement market of Southeast Asia, RHI defended its market share in fierce competition. In the booming countries China and India, where 50% of worldwide cement is now produced, RHI also recorded very good growth. In the Near and Middle East cement production also continued to grow significantly; RHI benefited from new construction activities and managed to extend its market position, which has been very good for years.

In the lime industry, RHI increased sales volume and revenue significantly due to growing project business and the recovery in the core market Western Europe. In Central and South America, the good market and competitive position was defended again. With the first major contracts for new plants in China, a further penetration of this important lime market was accomplished. The price-performance ratio of RHI solutions for lime customers is still unparalleled, and RHI is still world market leader by a large margin.

2006 was the most successful year of the cement and lime business unit to date; sales volume, revenue and contribution to earnings increased significantly again.

Nonferrous metals

In 2006, the nonferrous metals market was characterised by historic record prices and at the same time high price volatility, for instance for copper and nickel. Many repairs were postponed; yet, some client industries were affected by bottlenecks in supply due to very low stock inventories although kiln capacity was fully utilised. RHI benefited especially from capacity extensions and major project business in 2006, which developed far above average and where RHI gained market share.

Consolidation among the global players in nonferrous metals continued to increase significantly through takeovers. The acknowledged technology leadership and reliably high quality of RHI refractory solutions guarantee our customers maximum availability of production plants and thus form the basis of our success.

With our service package consisting of customised lining concepts, process simulation and support, consistent quality and the ability to deliver on time globally, we create added value for our customers. The fact that not only our key accounts appreciate the added value created is also reflected in the above-average market share, especially in key aggregates of the copper and nickel industries.

Sales volume and revenues of the nonferrous metals business unit reached new record highs in 2006; its contribution to earnings exceeded the figure of the previous year despite negative currency effects.

Glass

Moderate growth in the container glass segment, strong growth in float glass and significant increases in special glass determined the development of the glass industry again in 2006. Trends in container glass, for example the substitution of glass packaging with cans and plastics, and the consolidation of the glass industry continued in important markets, particularly in Europe. Demand for container glass therefore dropped in Western Europe; growth was achieved through investments in Eastern Europe and Asia. In China, demand for high-grade refractories slowly increased; due to financial restrictions, the container glass industry invested relatively little compared to other markets.

In comparison, flat glass recorded good growth of over 5% in 2006. The market in China grew overproportionally, and the potential for modern float glass tanks and for high-grade refractories is large. The trends for special glass continued in 2006; the glass production for conventional TV sets continued to decline, and tanks were shut down. Business with LCD TV sets in turn is still booming; annual growth rates exceeding 10% are still forecast. The display glass required is manufactured only by a few companies worldwide.

RHI's activities centred on the expansion of its market position in the emerging market of the CIS states in 2006. In addition, longer-term contracts were concluded with major glass customers, an important step towards a lasting partnership.

Sales volume, revenue and contribution to earnings of the glass business unit in 2006 were at the good level of the previous year.

Monofrax strengthens RHI's glass position

In December 2006, RHI signed a contract to acquire all relevant assets of Monofrax Inc., the only producer of fused cast products in North America. These products are predominantly used in the glass industry. Monofrax reported revenues of USD 45 million in the USA, Asia/Pacific and Europe in 2005; the operating result (EBIT) amounted to USD 6 million in 2005. The transaction was closed on 31 January 2007; since February, the business has been consolidated in the RHI Group.

Monofrax has innovative products, important patents and excellent business relations with the most important glass producers worldwide. In the growing glass market, RHI is the world's largest refractories supplier independent of the glass industry and already operates modern production facilities for fused cast products in Italy, as well as further production sites for refractories for the glass industry in Europe and China. With Monofrax, RHI has gained another technologically, logistically and economically optimal production site for high-grade products especially for the highly important special glass market in North America.

The new production network enables the sales experts of RHI Glas and Monofrax to apply their refractories know-how, which will be pooled in the future, to ensure an even more intensive joint market penetration and optimal customer solutions worldwide.
With the integration of RHI Monofrax Ltd. into its worldwide sales network, the business unit glass is again significantly strengthening its position as a full-line supplier and now most important independent producer of fused cast refractories specialties.

Environment, energy, chemicals

In 2006, the RHI business was characterised by growing demand worldwide and projects in the energy, chemicals and petrochemical segments. Many countries in the Near East and Africa increasingly invested in technology in order to better use local resources and to raise the value added significantly.

In the immediate vicinity of natural gas sources, important projects relating to liquefying and refining gas in what is called "gas to liquid" plants are emerging, an attractive market potential for RHI. Sales volume to refineries worldwide also developed well in a good economic situation; RHI expanded business considerably, for example in Canada. The petrochemical industry invests in new technologies which entail a higher need for high-grade refractories. In view of the high energy prices the willingness to invest in new projects such as exploiting oil sand deposits is increasing. The power plant market will remain a growth segment worldwide, with nuclear energy and fossil fuel plants offering an important market potential for refractories. The positive trends in these important growth segments will continue; RHI was successful because of new solutions in these areas in 2006.

In the environmental technology segment, Asia is experiencing growing demand for waste and special waste treatment. Europe still invests in municipal plants, and, with overcapacities and alternative means of disposal to other industries, special waste incineration only holds little market potential.

In this market environment, the environment, energy, chemicals business unit slightly increased its revenue and contribution to earnings in 2006.

Raw Materials, Production, Other Division

In RHI's new management structure the Raw Materials, Production, Other Division is responsible for the strategically important value added in the 32 mining, raw materials and production plants; it also controls the procurement of raw materials and energy for the RHI Group. The Raw Materials Division predominantly supplies the Steel and Industrial Divisions with refractory products; in addition, raw materials are sold to clients outside the refractories industry to a lower extent.

Revenue in the segment Raw Materials, Production, Other totalled € 884.7 million (previous year: € 792.0 million); € 827.9 million (previous year: € 737.3 million) was accounted for by deliveries to the RHI Group and € 56.8 million (previous year: € 54.7 million) by external customers. The figure includes revenues of € 18.2 million (previous year: € 14.3 million) of Isolit-Isolier GmbH, the only non-refractory activity still remaining in the RHI Group.

EBIT of Raw Materials, Production, Other amounted to € 7.2 million (previous year: € 6.7 million), in the previous year EBIT also contained a payment in the amount of USD 20.0 million (€ 16.9 million) affecting the income statement under "Other", which Honeywell made to RHI Refractories Holding in late 2005 in the context of the US-Chapter 11-proceedings.

Backward integration strengthened

As a result of the globally good conditions for the refractories industry and the high capacity utilisation at customer plants, the demand for refractory raw materials continued to increase in 2006. Some bottlenecks in supply occurred for high-grade raw materials, which also had an adverse effect on the price-performance ratio of refractory raw materials.

With a view to the market prospects, which are positive in the long term for high-grade refractories, demand for high-grade raw materials will continue to increase; coupled with the expected increase in energy costs, RHI expects refractory raw material prices to rise at least slightly. The market development confirms RHI's strategy of strengthening its own supply with raw materials through backward integration.

The development of RHI has traditionally been based on the availability of self-produced raw materials. The roots lie in the Austrian Alps, where RHI has operated its own mines for over 125 years. In 2006, RHI produced 1.1 million tonnes of magnesite and dolomite from five deposits with long-term substance reserves, of which 600.000 tonnes were mined in Austria and nearly 300,000 tonnes in Turkey and Italy respectively.

Magnesite is the main raw material for refractories. 20% of the world's reserves of this mineral are located in the Liaoning province in the northeast of China. Before being used as a refractory raw material, the mineral is processed to become magnesia in a multi-stage treatment and firing process. RHI covers 50% of its magnesia requirements from its own raw material deposits; the three Chinese refractories plants in Bayuquan and Dalian in the Liaoning province purchase high-grade magnesia exclusively from Chinese suppliers at this stage.

In order to ensure raw material supply to these plants in the long term, RHI has established a joint venture for the production of top-quality magnesia with its Chinese partner Liaoning Jinding Magnesite Group Co. Ltd. (JDMG). Construction began in December 2006; production is scheduled to be launched in late 2007, and two production lines are scheduled to fully operate in mid-2008. RHI holds an 80% stake, the partner JDMG 20%.

JDMG owns magnesite mines in the Liaoning province and secures the long-term supply of the joint venture with raw materials. Both partners provide their good know-how and their share in financing the project. RHI is investing nearly € 40 million in this long-term backward integration and thus in the strategic supply of the plant in China and other RHI plants in Europe and North America. The raw material plant will cover 50% of RHI's plants in China in the future, thus significantly reducing dependence on local suppliers.

RHI also requires special melting raw materials, 50% of which are already self-produced today. In order to secure the increasing requirement of such high-grade raw materials logistically and economically, RHI is currently building a smelting plant with two electric arc furnaces and an annual capacity of 30,000 tonnes in Isithebe/South Africa. In addition to inexpensive electrical power and locally available raw materials, this location is situated very close to the harbours of Richards Bay and Durban. The plants will be established at a site leased for the long term. RHI will invest € 9 million in 2007.

In a next step, the existing South African refractories production facility will also be integrated into the Isithebe location.

Production optimisation continued

Investments in RHI's raw material operations to support backward integration will contribute to improving RHI's earnings quality in the medium term. Capacity at the RHI raw material plants in Breitenau, Hochfilzen (Austria), Marone (Italy) and Tutluca (Turkey) was fully utilised in 2006; this contributed to cost reductions as did investments to enhance efficiency and optimise processes in the sintering segment of the Marone plant.

The production sites for finished refractory products were also developed further. Some of the most important projects 2006:

- >> Increasing mixing capacity for mixes in Breitenau;
- >> Completion of optimisation project "setting" in Radenthein;
- >> Commissioning of thermal afterburning in Radenthein;
- >> Upgrading of the production line for mixes in Duisburg;
- >> Production optimisation of nonbasic fired bricks in Tlalnepantla,
- >> Commissioning of RHI's third ISO plant in Dalian;
- >> Investment start for the second tunnel kiln in Dalian for fired magnesia bricks.

To secure global competitiveness of its European works, RHI started the reorganisation project "Operations Excellence".

The objective is to improve productivity and plant utilisation and to secure technology leadership with a process-oriented organisation. The new "OPEX organisation structure" will be introduced in several stages by 2008.

First refractories plant in India

In December 2006, RHI acquired a 51% share in Clasil Refractories Ltd. in India in the course of a capital increase. Clasil operates a refractories plant in Venkatapuram in the Andhra Pradesh province. In early 2007, production of non-basic bricks and mixes started. An extension to produce prefab construction parts and a line to manufacture slide gates is scheduled for mid-2007. The plant is favourably located from a logistics point of view 50 kilometres southwest of east India's largest harbour, Vishakhapatnam. In view of the growing steel and cement industry and exports to the Near East and Asia, the location is optimally positioned.

Having acquired a stake in Clasil, RHI now has its first production facility in the emerging market India. The ongoing strong economic growth in India will raise the demand for high-grade refractories in India. In providing optimum service to Indian clients, local production is indispensable when it comes to offering a greater number of package solutions.

Efficient energy use and environmentally sound production

The refractories industry is one of the energy-intensive industries. RHI strives for maximum energy efficiency and environmentally sound production for economic reasons. 80% of the energy required is accounted for by fossil fuels, mainly natural gas, and 20% by electric energy. Approximately 95% of the energy is used for production, 5% for hot water and heating. In order to constantly raise energy efficiency RHI operates an energy competence centre, which is made up of experts for fuels and specialists in the methods applied. Energy efficiency programmes are implemented at production sites worldwide, and experience is pooled and made available to all plants. Moreover, the methods of raw materials and refractories production are enhanced continuously in close cooperation with Research & Development in order to improve not only energy efficiency but also emissions from production. Compared with a benchmark of international producers, RHI's specific energy consumption ranks among the best.

A continuous process optimisation has enabled us to reduce CO_2 emissions at the Austrian plants below the Kyoto target of -13% since 1991, while total production remained constant. At the European plants, RHI accomplished a decline below the European reduction target of -8%.

Currently, the REACH inspections are performed in Europe. In June 2007, the EU directive REACH (Registration, Evaluation, Authorisation of Chemicals), which applies to nearly 30,000 substances, will enter into force. All producers and importers of such substances in the EU are obliged to register them within a certain period. If the substances are not registered in time, the „no data no market" principle applies and business restrictions loom. RHI is affected by this directive both as a producer and as an importer and is in a position to meet all EU requirements.

In accordance with the RHI mission statement, the Raw Materials, Production, Other Division organises production processes aiming to minimise direct and indirect environmental impact.

Revenue and Earnings

New segment reporting

With the Group's focus on refractories, RHI reports on the year 2006 in a new structure with three segments for the first time. The new reporting segments are "Steel", "Industrial" and "Raw Materials, Production, Other". The Steel segment reflects the business with RHI steel customers worldwide; the Industrial segment comprises the client industries cement, lime, glass, non-ferrous metals, environment, energy, and chemicals.

The Raw Materials, Production, Other segment shows the value added in the mining, raw materials and production operations, which predominantly supply RHI's Steel and Industrial Divisions.

The income statement 2006 shows the consolidated contributions to revenue and earnings of these three segments, and, derived from it, the profit from continuing operations. Profit from discontinued operations, which reflects the result of the Insulating Division (Heraklith), which was sold at 13 June 2006, is shown for the last time in 2006 in order to calculate Group profit.

The comparable figures of 2005 were adjusted to the structure of 2006 in accordance with IFRS.

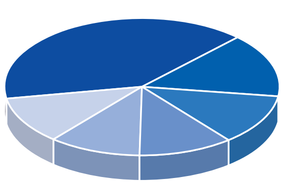
RHI Group: Revenues

in € million	2006	2005	Change in %
Revenues	1,335.8	1,199.4	11.4
Segment Steel	815.8	735.8	10.9
Segment Industrial	463.2	408.9	13.3
Segment Raw Materials, Production, Other	884.7	792.0	11.7
Consolidation	-827.9	-737.3	-12.3

RHI Group: EBIT

in € million	2006	2005	Change in %
EBIT	133.8	115.5	15.8
Segment Steel	68.3	59.7	14.4
Segment Industrial	58.3	49.1	18.7
Segment Raw Materials, Production, Other	7.2	6.7	7.5

Refractories revenue by region



- 40 % Western Europe
- 15 % North America
- 12 % Asia/Pacific
- 11 % Central/South America
- 11 % Africa, Near/Middle East
- 11 % Eastern Europe

Revenue and EBIT significantly improved

Revenue in the RHI Group was up 11.4% to € 1,335.8 million in 2006 (previous year: € 1,199.4 million), of which 61% were accounted for by the Steel Division, 35% by the Industrial Division and 4% by Raw Materials, Production, Other. This figure includes revenue in the amount of € 18.2 million (previous year: € 14.3 million) generated by Isolit-Isolier GmbH, RHI's only non-refractories company.

EBIT improved by 15.8% to € 133.8 million in 2006 (previous year: € 115.5 million); EBIT of the previous year includes € 16.9 million from a Honeywell payment to RHI Refractories Holding in the amount of USD 20 million. The EBIT margin in the RHI Group rose to 10.0% (previous year: 9.6%) due to the good business development. Price increases to cover raw material and energy costs, which were up again, and the very good capacity utilisation of RHI's production sites contributed to this improvement.

The financial result improved to € -25.0 million (previous year: € -25.3 million). The interest result was € 2.1 million better than in the previous year; non-cash interest on personnel provisions, at € -16.1 million (previous year: € -15.8 million) remained at the level of the previous year. Valuation effects contributed € -1.5 million to the change.

Profit Development and Capital Structure

RHI profit up substantially in 2006

Profit before income taxes in the RHI Group was up a good 19.2% and amounted to € 110.4 million in 2006 (previous year: € 92.6 million); the tax rate increased slightly from 10.6% to 12.0%. Profit from continuing operations improved to € 97.1 million (previous year: € 82.8 million), up 17.3%.

Profit from discontinued operations 2006 shows the final book profit from the sale and deconsolidation of the Insulating Division after the closing of the transaction at 13 June 2006. Profit from the sale of the Heraklith Group amounted to € 60.8 million; in 2005 profit from the discontinued RHI operations was € 14.5 million.

RHI's consolidated profit of € 157.9 million (previous year: € 97.3 million) reflects both the good refractories business development and the book profit from the completion of the portfolio realignment.

Profit attributable to minority interest amounted to € 2.9 million in 2006 (previous year: € 1.7 million); profit attributable to equity holders of RHI AG thus totalled € 155.0 million (previous year: € 95.6 million). Basic earnings per share, based on the average of shares of RHI AG issued in 2006, amounted to € 5.81 (previous year: € 4.07); including all potential shares from the RHI convertible bonds, the thus diluted earnings per share were € 4.01 (previous year: € 2.55).

RHI Consolidated Income Statement

in € million	2006	2005	Change in %
Continuing operations			
Revenues	**1,335.8**	1,199.4	11.4
EBITDA	**179.5**	156.4	14.8
EBIT	**133.8**	115.5	15.8
Financial results	**-25.0**	-25.3	1.2
Results from associates	**1.6**	2.4	-33.3
Profit before income taxes	**110.4**	92.6	19.2
Income taxes	**-13.3**	-9.8	-35.7
Profit from continuing operations	**97.1**	82.8	17.3
Profit from discontinued operations	**60.8**	14.5	319.3
Profit for the year	**157.9**	97.3	62.3
Profit attributable to minority interest	**-2.9**	-1.7	-70.6
Profit attributable to equity holders of RHI AG	**155.0**	95.6	62.1
Basic earnings per share (in €)	**5.81**	4.07	42.8
Diluted earnings per share (in €)	**4.01**	2.55	57.3

Capital structure of the RHI Group

The structure of RHI's consolidated balance sheet changed significantly at 31 December 2006. The balance sheet total dropped 20% to now € 1,192.7 million as a result of the deconsolidation of the assets and debts of the discontinued insulating operations. Negative equity continued to improve substantially by € 148.0 million to € -64.5 million. It was first recorded in the 2001 financial statements and resulted from the deconsolidation of all US refractories companies, which have been operating under Chapter 11 since early 2002 and over which RHI AG no longer exercises control.

RHI managed to avert insolvency measures in early 2002 through a capital restructuring concept. The liquidity of the RHI Group was secured in the long term by a contract with the banks. One element of the restructuring was the conversion of € 400.0 million of bank liabilities into subordinated liabilities free of interest and repayment until 2006. The subordination of the € 400.0 million was cancelled at 31 December 2006; since 1 January 2007, these financial liabilities bear interest again and must be repaid by RHI in seven equal instalments by the end of 2013.

A further element of the capital restructuring are the subordinated convertible bonds, which were issued in 2002. As conversion rights have been exercised since early 2003, the consolidated balance sheet at 31 December 2006 still shows subordinated debt in the amount of € 75.5 million (previous year: € 96.5 million) of the original nominal value of € 144.72 million. In the first quarter of 2007, bonds with a nominal value of € 23.9 million were converted into RHI shares.

Assets and Financial Position

Cash flow 2006 with non-recurring effects

Cash flow from operating activities in continuing operations, at € 50.9 million in 2006 (previous year: € 108.3 million), fell short of the figure of the previous year. Here, it must be taken into account that, following the closing of the sale of Heraklith in June 2006, € 34.7 million was used to completely repay liabilities, which still existed from previous interest and currency swaps relating to the US companies, which were deconsolidated in 2001. In addition, cash flow 2005 included € 16.9 million from the USD 20 million payment, which RHI received from Honeywell in December 2005 in the context of the Chapter 11-proceedings in the USA. Adjusted for these effects, cash flow from operating activities 2006 was roughly at the level of the previous year. The improved cash flow from profit was offset by a higher requirement for working capital as a result of the extension of business activities.

Cash flow from investing activities amounted to € 177.9 million in 2006 (previous year: € -60.3 million); here, the proceeds less cash and cash equivalents from the sale of the discontinued insulation operations in the amount of € 216.6 million (previous year: € 0.0 million) is reflected. At € -51.8 million in 2006, capital expenditure was below the figure of the previous year of € -66.2 million.

Cash flow from financing activities amounted to € -205.0 million in 2006 (previous year: € -47.7 million); this figure also reflects the sale of the Heraklith Group.

The consolidated balance sheet at 31 December 2006 shows financial liabilities in the amount of € 486.4 million, € 419.7 million after the deduction of cash and cash equivalents. Cash and cash equivalents rose from € 21.2 million to € 66.7 million.

The net financial liabilities, which were reduced considerably in comparison with 2005, correspond to the 2.3-fold EBITDA of the Group in 2006 and enable RHI to expand the Group, while liquidity is contractually secured in the long term.

At 31 December 2006, the Group had a credit facility amounting to € 617.7 million (31.12.2005: € 767.8 million); the figure of the previous year also includes financial liabilities of € 400.0 million, which were subordinated and free of interest until 30 December 2006 and were re-converted from subordinated, interest-free liabilities to interest-bearing liabilities without subordination on 31 December 2006 based on agreements between RHI and the consortium of banks in the context of the restructuring agreement.

RHI Group: Cash flow

in € million	2006	2005	Change in %
Continuing operations			
Cash flow from operating activities	**50.9**	108.3	-53.0
Cash flow from investing activities	**177.9**	-60.3	395.0
Cash flow from financing activities	**-205.0**	-47.7	-329.8
Cash flow from continuing operations	**23.8**	0.3	>100.0
Cash flow from discontinued operations	**3.9**	7.1	-45.1
Cash flow total	**27.7**	7.4	274.3

Revenue and Earnings Outlook

Positive outlook on 2007

RHI's strategy and operative measures for a future geared to high earnings and cash flow with a focus on refractories are defined. The restructuring has been completed. RHI has gained sufficient financial scope for a targeted expansion of the Group in emerging countries through the sale of Heraklith. RHI will continue to examine all opportunities for organic growth and useful acquisitions and take advantage of them consistently in 2007.

The competition for market share and growth potential in the refractories market continues unabated. The refractories industry is increasingly faced with overcapacities, not only in China. In this environment, the development of important currencies also has a significant impact on competitiveness. RHI has developed its production capacities internationally, parallel to the development of the sales volume structure and the share of non-euro invoices in order to remain competitive in terms of cost.

RHI expects the market environment to be overall positive again in 2007.
Forecasts indicate an overall robust economic development, which will however continue to vary greatly in the different regions of the world. In Western Europe a level similar to 2006 can be expected; forecasts for the USA vary and are on the conservative side. Important countries in the Near and Middle East, in Eastern Europe and the CIS, especially Russia, as well as several countries in Central and South America should be able to latch on to the positive trends.

Asia still a key region

Growth in Asia will play a decisive role in the development of the world economy and most of RHI's client industries in 2007. The vast majority of forecasts are predicting growth rates in the high single figures for China and India, which is likely to boost investment and production growth in these countries and the Asian region as a whole. The Chinese government aims to better control the growth and modernisation of capacities in strategic industries such as steel in order to manage scarce resources such as raw materials, energy and the environment better.

It is increasingly relevant to the steel industry, RHI's largest group of worldwide customers in the long term, at which speed China modernises its capacities, and India, Brazil and Russia expand their production. The dynamic growth in Asian countries will continue to be a decisive factor determining capacity utilisation for the customer industries relevant to RHI.

Availability and cost development of important resources are crucial aspects in the economic situation of RHI's customers and RHI itself. Political stability is an important factor for the level and volatility of prices in the energy and raw material markets.

Consolidation as an opportunity

The persistent consolidation in the steel, cement, glass and nonferrous metals industries, which is currently accelerating, has a very important and positive impact on the market potential for RHI. Globally operating customers, whom RHI has supplied with individual key account concepts for many years, need globally operating refractories partners with the corresponding logistics at their disposal.

RHI can guarantee optimum supply, both in technical and economical terms, with maximum security. RHI will consistently continue to develop key account concepts for global players in all its customer industries. As a generalist supplier able to deliver worldwide RHI is very well positioned.

Following the good business development in 2006, incoming orders at the beginning of 2007 slightly exceed the level of the previous year. RHI will continue to expand capacity in China and India in 2007 in order to lay the foundations for further profitable organic growth. In addition, new capacities for RHI customers in the glass market have been available since February 2007 following the acquisition of the assets of Monofrax in the USA which was successfully closed.

RHI aims to reach a two-digit EBIT margin again based on a successful implementation of price increases to cover further increases in costs in 2007.

Employees

In the continuing operations, refractories, the number of employees rose from 6,367 to 6,526, which was primarily attributable to the extension of the refractories production in China.

A global, multicultural network of experts and managers who develop optimal solutions for RHI's customers and ensure business success, is of great significance to RHI. The RHI Group's global presence is increasingly reflected in the international structure of its staff. The annual headcount in RHI's fully consolidated companies in 2006 was broken down by region as follows: 64% in Western Europe, 13% in Asia/Pacific, 8% in Central and South America, 7% in North America, 5% in Africa and 3% in Eastern Europe. At the end of 2006, 1,927 RHI employees worked at Austrian locations.

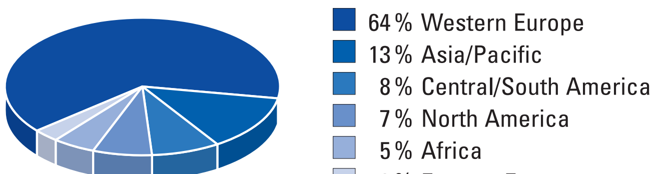
Employee stock ownership plan

The employee stock ownership plan "4 plus 1", which was introduced worldwide in 2005, was offered at all fully consolidated RHI companies again in 2006. This plan grants employees the option to receive bonus stock worth € 1,460 in total against RHI stock they have purchased to a total of € 5,840 per annum. At year-end 2006, 966 employees held RHI shares.

RHI key personnel figures

	2006	2005	Change in %
Revenues in € million	**1,335.8**	1,199.4	11.4
Personnel expenses in € million	**295.5**	283.8	4.1
Average annual number of employees	**6,526**	6,367	2.5
Number of employees at 31.12.	**6,650**	6,342	4.9
Personnel expenses in % of revenue	**22.1**	23.7	-6.8
Personnel expenses per employee in € 1,000	**45.3**	44.6	1.6

Breakdown of RHI employees by region



Training at the RHI Group

RHI trains young people at nearly all locations in Austria and Germany. Some of the apprentices are additionally trained at RHI's own apprentice workshops. RHI also trains young people who are disadvantaged due to physical disabilities in a framework of several projects. We attach great importance to not only providing technical training but rather giving young people a chance to develop their personality. Consistent and continuous training and education guarantee RHI experienced and highly motivated staff in the future.

Personnel development

In addition to continuing the successful personnel development activities in Europe, the focus was placed on China in 2006: Based on tailor-made programmes an increasing number of local executives are to replace the European managers in the medium term, who in turn will then be in charge of RHI's growth in a different position worldwide. RHI is thus establishing itself as an attractive and preferred employer for qualified employees. International orientation will remain a central aspect of the new development programmes for executives and a new generation of managers.

Qualification, commitment and identification of our employees with RHI's targets and values are success factors in being competitive. We are convinced that the Group's success greatly depends on the quality of our employees. With its modern and active personnel marketing, RHI is positioning itself as an attractive international employer for qualified graduates.

Research & Development

50 years refractories R&D in Leoben

RHI conducts systematic research and development (R&D) in all areas relevant to refractories. 50 years of R&D at the Technology Center Leoben, Austria, have formed a fundamental basis for RHI’s success today and for the future development of globally leading technological refractories solutions.

In addition to working in the three areas fundamental to refractories, i.e. chemistry, mineralogy and physics, seven product-related development groups have been established. They cover raw materials and different product groups of RHI’s client industries, which are grouped according to chemical composition, shape and manufacturing technology.

Prototypes are manufactured in small series and customer-related wear tests are conducted under simulated test conditions at a pilot plant. Computer-aided calculations and simulations support the development groups, simulations based on fluid-dynamic and finite element calculations are increasingly gaining significance.

The nationally and internationally promoted, intensive cooperation with public and private research institutions and industrial competence centres for refractories and customer industries, is essential to the success of R&D. Special research projects are solved in cooperation with Austrian universities in Leoben, Graz and Linz, with Christian Doppler laboratories or in international cooperations.

R&D as an investment in the future

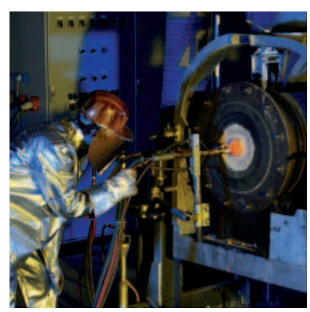
The R&D budget exceeds 1% of RHI’s revenue and, benchmarked to the steel, nonferrous metals and cement industries and major engineering firms, at a sustainable level. A third of R&D expenses is invested in long-term, so-called pre-competitive research in cooperation with universities and research institutions.

At the Technology Center Leoben, RHI invested in a hydraulic press with state-of-the art process control and pressing technology to extend RHI’s core competence in shaped basic magnesia products, non-basic alumina products und slide gate ceramics.

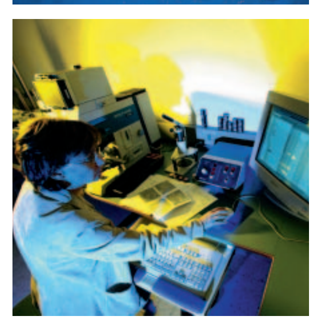
People and targets in R&D

More than 100 experts work at the Technology Center Leoben and at RHI locations throughout the world in R&D today. Through the pooling of all resources and forces, the internationality and flexibility of staff, their knowledge and not least their commitment, their individual professional work merge to a common and successful R&D enterprise.

Enhancing refractories technology and innovation leadership is at the same time a motivation and an objective. RHI’s focus on its core competence, refractories, requires R&D to permanently seek new ideas and approaches. The innovation process also must be customer-oriented in order to ensure evident market success such as illustrated with RHI.





R&D future directions

The strategic direction of R&D work is developed in line with the product, market and technology strategies of the Steel, Industrial and Raw Materials, Production, Other Divisions. Some of the current focal points in the R&D programme are:

>> Development of RHI's own and new synthetic raw materials for new refractory materials;
>> New refractory materials for all applications in the Steel and Industrial segments;
>> New manufacturing processes for refractory raw materials and products;
>> Machinery to process refractory materials as well as supporting sensors;
>> Simulation calculations of basic materials, linings and (customers') manufacturing processes;
>> Work on fundamental issues such as thermo-mechanical behaviour and brittleness reduction of refractory materials, and corrosion behaviour;
>> Work on electrochemistry and process simulation in cooperation with the University of Leoben, department of refractory construction materials.

Customer requirements identified by RHI's divisions, technical and legal requirements placed on manufacturing, raw materials and products are important factors influencing the orientation of R&D efforts.

The protection and management of intellectual property is increasingly gaining importance. R&D results regarding raw materials, products and methods must be protected as far as legally possible and economically useful to ensure the investment in R&D remains profitable in the long term. RHI manages patents, industrial property rights and trademarks with internal experts and external support. RHI's patent portfolio was strengthened by new patents registered in the areas of product formulation, product geometry and product use in 2006.

Networks as a key for R&D

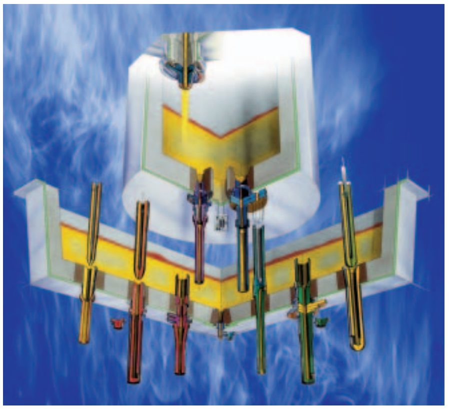
More than 180 people work at RHI's Technology Center in Leoben. In addition to 100 experts from R&D, RHI's worldwide production control of the Raw Materials, Production, Other Division with purchasing, quality and environment management, technical and logistics departments with another 80 experts is also based at the Technology Center.
A number of interdisciplinary teams established at the centre ensure a regular exchange of know-how and experience. Moreover, the central R&D department and its decentralised development units, for instance at the RHI plants in China, are structurally networked with technical, sales and marketing experts of the Steel and Industrial Divisions, ensuring a market and customer-oriented R&D in line with RHI's strategy.

Developments with customers for customers

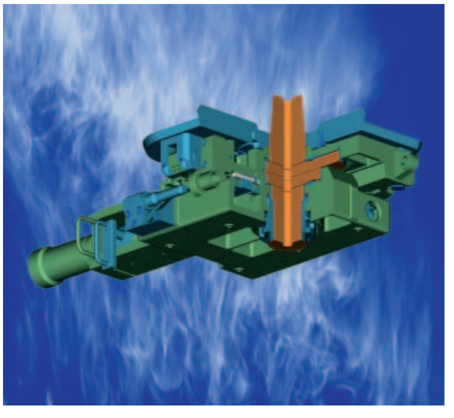
In accordance with the RHI mission statement, which defines permanent improvement in the value added in customer processes as a central goal, the customers' requirements are an indispensable basis for an applier-oriented R&D programme. This was also reflected in the following projects in 2006:

>> Successful completion and test of ConRep, a new RHI high-performance gunning robot for converter repair;
>> Successful test of ConScan, a laser-aided aggregate to measure refractory wear and to complement ConRep work in hot repair of converters;
>> Development of new gunning mixes for the use in ConRep for extremely high throughput.

RHI Research and Development is dedicated to innovation and continually improving our customers' production processes. The commitment and qualification of all our employees form the basis for RHI's future successes.



Flow Control –
from converter to mould



Slide gate systems for the
steel casting ladle

Risk Management

The RHI Group is exposed to a wide variety of risks in conducting business activities around the world.

In addition to the risks inherent to ordinary operating activities, particularly market, price, cost and investment risks, as well as the risk of price changes, the Group is also exposed to various financial risks. These include credit, liquidity, foreign exchange and interest risks, which, like operating risks, may affect the Group's cash flow.

RHI has a central risk management system used throughout the Group to limit these risks. In addition to identifying, analysing and assessing risks, decisions are made on the use of financial instruments to manage these risks, and the monitoring of these financial instruments by Group management.

Credit risk represents the risk of a possible loss due to the failure of business partners to meet contractual obligations. Even if the contract partners have an excellent credit rating, the risk of default that is associated with the underlying transaction is hedged as far as possible through credit insurance and bank securities (guarantees, letters of credit). The applicable credit criteria are defined in contracts with the credit insurers. Credit risk and the associated risk of default are monitored continuously, and provisions and valuation allowances are recorded to reflect actual and identifiable risks.

The evaluation of the overall risk position of the Group incorporates existing insurance coverage as well as guarantees and letters of credit. The risk of default is not concentrated on one customer group or sector because the RHI Group is active in many different customer branches and has a large number of business partners, and also maintains sufficient coverage through credit insurance.

Liquidity risk is the risk associated with a company's ability to raise sufficient funds to meet its obligations on a timely basis. The Group's financing policy is based on long-term planning, and is managed and monitored centrally by RHI.

RHI was provided with € 400.0 million of subordinated interest-free lines of credit by the restructuring agreement that was concluded at the beginning of 2002; these facilities have been used in full. The subordinated status of these liabilities terminated as of 31 December 2006. According to the restructuring agreement, these lines of credit are available to RHI up to 2013 and carry interest as of 1 January 2007. In addition, the RHI Group had a further € 217.7 million of credit facilities as of 31 December 2006.

Based on a revolving cash flow forecast, the liquidity of all RHI Group companies is secured by an adequate volume of unused and committed lines of credit that are available on short notice.

Foreign exchange risk is defined as the risk arising from fluctuations in the value of financial instruments, other balance sheet items (e.g. receivables and liabilities) and/or cash flows due to fluctuations in exchange rates. This risk arises above all in countries where business transactions are or could be conducted in a different currency than the local currency (in the following, foreign currency).

The international structure of business operations in the RHI Group provides a broad-based, natural hedge for the risk associated with foreign currency receivables and liabilities. The Group holds foreign currency receivables and liabilities with similar terms in the same currency.

Due to the centralised nature of RHI operations, the majority of invoices as well as all procurement transactions – i.e. raw materials, supplies and energy – that are concluded in euros or foreign currencies are coordinated the responsible headquarters departments. This provides the Group with a transparent overview of the major foreign exchange risks that could arise from its worldwide operations.

As of the balance sheet date, no foreign currency positions were hedged with derivative financial instruments because the remaining net risk was immaterial.

The interest-bearing financial liabilities held by the RHI Group as of the balance sheet date were denominated primarily in euros, and will therefore not create a material foreign exchange risk.

Interest rate risk reflects the risk associated with a change in the value of financial instruments, other balance sheet items and/or interest-related cash flows due to fluctuations in market interest rates. Interest rate risk comprises the present value risk related to fixed-interest balance sheet items as well as the cash flow risk on variable-interest balance sheet items.

For fixed-interest financial instruments, a market interest rate is arranged for the entire term. The risk associated with such instruments arises from a possible change in market value (the present value of future cash flows, i.e. interest expense and principal repayments, discounted at the market rate applicable to the remaining term to maturity as of the balance sheet date) if interest rates fluctuate. This interest-related market risk will lead to a gain or loss if the fixed-interest financial instrument is sold before the end of the term. For variable-interest financial instruments, the interest rate is adjusted regularly and generally follows the market rate. The risk associated with variable-interest financial instruments arises from a possible change in the market rate that may lead to a change in interest payments.

The interest-bearing financial liabilities and subordinated convertible bonds used for financing purposes by the RHI Group comprise ca. 70% of fixed-interest instruments and ca. 30% of variable-interest instruments.

Interest rate risk was not hedged with derivative financial instruments as of the balance sheet date because the financing structure of the Group is secured over the long-term through a sound balance of financing sources.

Derivative financial products are evaluated and arranged for centrally by RHI in connection with the management of financial risk by Group headquarters.

An embedded derivative is a component of a hybrid instrument that meets the following criteria: the economic characteristics and risks of the derivative are not closely linked with those of the host contract; a transaction concluded under the same conditions would have to be reported as a derivative financial instrument and the hybrid financial instrument is not recognised at present value through profit or loss.

Embedded derivatives are used in the RHI Group above all for outstanding orders and trade receivables denominated in foreign currencies. The host contracts are primary financial instruments, which are measured at their net carrying amount.

The derivative financial instruments are separated from the host contract, measured at fair value and recorded under other income or expense.

The trade receivables, other receivables and payables, and cash and cash equivalents shown on the RHI balance sheet generally approximate fair value because of their short term to maturity.

The fair values of financial liabilities are calculated as the present value of discounted future cash flows, based on the market rates applicable to financial liabilities with a similar term and risk structure.

Notes in Accordance with § 243a UGB

Composition of RHI share capital, class of shares, limitations and rights

At 31 December 2006, the share capital of RHI AG amounted to € 212,074,126.88 and consisted of 29,182,039 no-par bearer shares.

Only shares of this class are issued. Each RHI share has one vote. There are no RHI shares with special control rights.

Limitations regarding the voting rights of RHI shares, also from agreements between shareholders, are not known to the Company.

Direct or indirect stakes in RHI capital

At 31 December 2006, one shareholder (Wilhelm Winterstein, Germany) to whom more than 5% of the voting rights of RHI shares were attributable was known to RHI. Wilhelm Winterstein held an unchanged share of more than 5% of RHI voting rights at 1 April 2007.

On 11 January 2007 MS Private Foundation ("MSPF") informed RHI that it held 1,108,500 shares of RHI AG at that time, was entitled to acquire an additional 4,268,000 shares based on option agreements and also was holder of convertible bonds of tranche A which entitle it to the acquisition of an additional 6,259,000 shares of RHI AG. Exercising its conversion rights fully, MSPF could have held a maximum stake of 29.22% in RHI AG at that time. At 1 April 2007 the share of RHI voting rights attributable to MSPF exceeded 15%.

Authorisation of the members of the Management Board regarding the possibility to issue shares and buy back shares

Convertible bond tranche A
Based on a resolution of the extraordinary General Meeting of RHI AG of 15 February 2002, share capital was conditionally increased by a sum of up to € 72,305,836.31 by issuing 9,949,500 bearer shares with voting rights by means of an amendment to the articles of association of RHI AG. The issue price amounts to € 7.27. The conditional capital increase is carried out only insofar as bearers of convertible bonds tranche A issued on the basis of the resolution of the extraordinary general meeting on 15 February 2002 exercise their conversion rights for shares of RHI AG.

Convertible bond tranche B
At the extraordinary General Meeting of RHI AG on 15 February 2002 and the Annual General Meeting on 19 May 2005, the Management Board was authorised, within a period of five years of registration of the change in the Company's articles, with the consent of the Supervisory Board and without further consent by the Annual General Meeting and excluding shareholders' subscription rights, to increase share capital on one or several occasions up to a maximum amount of € 72,305,836.31 by issuing 9,949,500 no-par bearer shares with voting rights at an issue price of € 7.27 insofar as bearers of part convertible bonds tranche B exercise their right to converting the bonds to shares of the Company.

Employee Stock Ownership Plan 4 plus 1

With a resolution of the Annual General Meeting of RHI AG on 1 June 2006, the Company was authorised to acquire treasury shares in accordance with § 65 para. 1 (4) AktG in the amount of up to 11,000 no-par shares, which corresponded to 0.041 % of the Company's share capital at the time the resolution was adopted, at a maximum of the share price of the day this authorisation to issue shares to employees and executives of the Company as well as to members of the management, executives and employees of Group Companies, is exercised within the framework of the "employee stock ownership plan 4 plus 1". The authorisation is valid for 18 months from the day of the resolution.

Significant agreements taking effect in the case of a change of control

In the addendum to the restructuring agreement made with RHI's consortium of banks in January 2007, a cancellation right was agreed with Bank Austria Creditanstalt AG (BA-CA) as the consortium leader relating to the term loan facility in the amount of € 400.0 million:

"If the economic and/or legal control of RHI AG changes ("change of control"), both BA-CA and RHI AG are entitled to terminate the restructuring agreement including the addendum subject to a notice period of 3 months at the end of a calendar month. "Change of control" exists when a change of control in accordance with the Austrian Takeover Act in the version of the Act amending Takeover Law 2006 becomes known about RHI AG."

Events after the Balance Sheet Date

Detail of material events after the balance sheet date can be found in the notes.

Vienna, 20 March 2007

Management Board:

Andreas Meier
m.p.

Eduard Zehetner
m.p.

Giorgio Cappelli
m.p.

Manfred Hödl
m.p.

RHI Consolidated Financial Statements 2006

RHI Consolidated Balance Sheet 2006

in € million	Notes	31.12.2006	%	31.12.2005 [1]	%
ASSETS					
Non-current assets					
Property, plant and equipment	(1)	389.7	32.7	396.6	26.5
Goodwill	(2)	14.0	1.2	13.9	0.9
Other intangible assets	(3)	16.9	1.4	14.5	1.0
Shares in associates	(4)	13.3	1.1	13.9	0.9
Financial assets	(5)	41.1	3.4	42.0	2.8
Non-current receivables	(6)	1.7	0.1	2.3	0.2
Deferred tax assets	(7)	68.8	5.8	70.3	4.7
		545.5	**45.7**	**553.5**	**37.0**
Current assets					
Inventories	(8)	251.6	21.1	237.3	15.8
Trade and other current receivables	(9)	319.0	26.7	421.7	28.2
Current portion of non-current receivables	(6)	1.0	0.1	0.9	0.1
Income tax receivables		5.6	0.5	4.1	0.3
Securities and shares		3.3	0.3	3.1	0.2
Cash and cash equivalents	(10)	66.7	5.6	21.2	1.4
		647.2	54.3	688.3	46.0
Assets classified as held for sale	(11)	0.0	0.0	255.7	17.0
		647.2	**54.3**	**944.0**	**63.0**
		1,192.7	**100.0**	**1,497.5**	**100.0**
EQUITY AND LIABILITIES					
Equity attributable to equity holders of RHI AG					
Share capital	(12)	212.1	17.8	189.5	12.7
Group reserves	(12)	-297.2	-24.9	-423.4	-28.3
		-85.1	**-7.1**	**-233.9**	**-15.6**
Minority interest	(12)	**20.6**	**1.7**	**21.4**	**1.4**
		-64.5	**-5.4**	**-212.5**	**-14.2**
Non-current liabilities					
Subordinated liabilities to financial institutions	(13)	0.0	0.0	400.0	26.7
Subordinated convertible bond	(14)	75.5	6.3	96.5	6.4
Subordinated liabilities		75.5	6.3	496.5	33.1
Other non-current financial liabilities	(15)	396.1	33.2	197.9	13.2
Deferred tax liabilities	(7)	10.2	0.9	11.8	0.8
Personnel provisions	(16)	331.5	27.8	326.7	21.8
Other non-current provisions	(17)	2.5	0.2	2.5	0.2
Other non-current liabilities	(18)	4.5	0.4	23.6	1.6
		744.8	62.5	562.5	37.6
		820.3	**68.8**	**1,059.0**	**70.7**
Current liabilities					
Trade and other current payables	(18)	246.3	20.6	271.5	18.1
Current financial payables	(15)	90.3	7.6	59.7	4.0
Income tax payables		25.4	2.1	25.4	1.7
Current provisions	(17)	74.9	6.3	72.5	4.9
		436.9	36.6	429.1	28.7
Liabilities classified as held for sale	(11)	0.0	0.0	221.9	14.8
		436.9	**36.6**	**651.0**	**43.5**
		1,192.7	**100.0**	**1,497.5**	**100.0**

1) The reference period 2005 was adjusted.

RHI Consolidated Income Statement 2006

in € million	Notes	2006	%	2005 [1]	%
Continuing operations					
Revenues	(21)	1,335.8	100.0	1,199.4	100.0
Special direct distribution costs	(22)	-107.8	-8.1	-98.2	-8.2
Cost of sales	(23)	-940.8	-70.4	-855.7	-71.3
Gross profit		**287.2**	**21.5**	**245.5**	**20.5**
Distribution costs	(24)	-79.3	-5.9	-75.4	-6.3
Administrative expenses	(25)	-79.4	-6.0	-79.2	-6.6
Other income	(26)	9.9	0.7	28.8	2.4
Other expenses	(27)	-4.6	-0.3	-4.2	-0.4
Operating results		**133.8**	**10.0**	**115.5**	**9.6**
Financial results	(30)	-25.0	-1.8	-25.3	-2.1
Results from associates		1.6	0.1	2.4	0.2
Profit before income taxes		**110.4**	**8.3**	**92.6**	**7.7**
Income taxes	(31)	-13.3	-1.0	-9.8	-0.8
Profit for the year from continuing operations		**97.1**	**7.3**	**82.8**	**6.9**
Discontinued operations					
Profit for the year from discontinued operations	(11)	60.8		14.5	
Profit for the year		**157.9**		**97.3**	
Profit attributable to					
equity holders of RHI AG		155.0	98.2	95.6	98.3
minority interest		2.9	1.8	1.7	1.7
		157.9	100.0	97.3	100.0
in €					
Continuing operations					
Basic earnings per share	(36)	3.53		3.46	
Diluted earnings per share [2]	(36)	2.48		2.19	
Discontinued operations					
Basic earnings per share		2.28		0.61	
Diluted earnings per share [2]		1.53		0.36	

1) The reference period 2005 was adjusted.

2) Diluted earnings per share assume a conversion of the convertible bonds issued by 2009 at the latest.

RHI Consolidated Statement of Recognised Income and Expenses 2006

in € million	Notes	2006	2005 [1]
Changes in fair value of assets classified as available for sale			
that was recognised directly in equity		0.0	0.9
Increase in the carrying amount of assets due to revaluation (IFRS 3)		0.0	7.4
Change in actuarial losses arising from defined benefit pension plans			
and termination benefits		-11.8	-44.4
Change in currency translation reserves		-23.4	27.2
Other changes		0.1	-29.5
Deferred taxes on changes in value recognised directly in equity		2.7	11.0
Income and expenses recognised directly in equity		**-32.4**	**-27.4**
Profit for the year		**157.9**	**97.3**
Total recognised income and expenses	(12)	**125.5**	**69.9**
Recognised income and expenses attributable to			
equity holders of RHI AG		123.2	83.5
minority interest		2.3	-13.6
		125.5	69.9
Effects on the components of equity as of 1 January 2006			
from changes in accounting policies			
- currency translation reserves		0.5	-
- accumulated results		-31.4	-
- minority interest		-0.5	-

1) The reference period 2005 was adjusted.

RHI Consolidated Cash Flow Statement 2006

in € million	Notes	2006	2005 [1]
Continuing operations			
Cash flow from operating activities	(32)	**50.9**	**108.3**
Investments in subsidiaries net of cash		-2.4	-1.7
Disposal of discontinued operations net of cash		216.6	0.0
Investments in property, plant and equipment and intangible assets		-51.8	-66.2
Disposal of property, plant and equipment and intangible assets		4.4	3.3
Investments in non-current receivables		-0.3	-2.7
Disposal of non-current receivables		0.8	0.4
Investments in financial assets		0.0	-3.2
Disposal of current securities		0.0	0.9
Change in associates		1.9	0.1
Investment subsidies received		1.1	0.4
Interest received		7.1	8.1
Dividends received		0.5	0.3
Cash flow from investing activities	(33)	**177.9**	**-60.3**
Dividends to minority shareholders		-1.3	-1.0
Premium from convertible bond issue		0.0	1.1
Convertible bond issue		0.0	2.8
Change in non-current borrowings		-201.8	0.4
Change in current borrowings		30.6	30.3
Change in group financial receivables		0.0	-57.9
Change in group financial liabilities		0.0	-0.7
Change in other financial receivables and liabilities		-17.1	-2.8
Interest payments		-15.4	-19.9
Cash flow from financing activities	(34)	**-205.0**	**-47.7**
Cash flow from continuing operations		**23.8**	**0.3**
Discontinued operations			
Cash flow from discontinued operations	(11)	3.9	7.1
Total cash flow		**27.7**	**7.4**
Change in cash and cash equivalents		**27.7**	**7.4**
Cash and cash equivalents at beginning of year		39.5	30.7
Change in cash and cash equivalents due to currency translation		-0.5	1.4
Cash and cash equivalents at year-end		66.7	39.5
thereof cash and cash equivalents from continuing operations		66.7	21.2

1) The reference period 2005 was adjusted.

RHI Notes to the Consolidated Financial Statements 2006

The RHI Group

RHI is a global industrial group, which maintains its headquarters in Austria. The Group produces ceramic products that are used in high-temperature production processes exceeding 1,200 °Celsius.

The business activities of the Refractories Division comprise three segments: steel and industrial as well as raw materials, production and other. The industrial segment is a supplier to the cement, lime, glass, non-ferrous metals, environment, energy and chemical sectors. The raw materials, production and other segment covers the value-added activities of the Group's mining, raw material and production operations, which are supplied primarily to the steel and industrial segments.

The Insulating Division, which manufactures and sells products made of stone-wool as well as wood-wool building boards and natural insulating materials, was sold on 13 June 2006.

The parent company of the Group is RHI AG, which is headquartered in Austria at Wienerbergstrasse 11, 1100 Vienna.

Accounting principles, general

The consolidated financial statements were prepared pursuant to § 245 a of the Austrian Commercial Code in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU). These consolidated financial statements do not differ from financial statements prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB).

The consolidated financial statements reflect the principle of historical cost, with the exception of derivative financial instruments and financial assets classified as available for sale, which are measured at fair value as of the balance sheet date.

The preparation of the consolidated financial statements in agreement with generally accepted accounting and valuation methods under IFRS, as adopted by the EU, requires the use of estimates and assumptions that influence the amount and presentation of assets and liabilities on the balance sheet as well as the disclosure of contingent assets and liabilities as of the balance sheet date and the recognition of income and expenses during the reporting period. Although these estimates reflect the best knowledge of the Management Board based on current transactions, the actual values recognised at a later date may differ from these estimates.

All amounts in the notes and tables are shown in € million, unless indicated otherwise. Individual as well as total figures represent the values with the smallest rounding difference. Therefore, minor differences may result from the addition of these rounded individual figures.

Initial application of financial reporting standards

As part of its projects to further develop IFRS and improve convergence with US-GAAP, the IASB has amended numerous standards and interpretations and also issued new regulations that call for mandatory application as of 1 January 2006. These new rules are also applicable in the EU and relate to the following areas:

IAS 19 (amended 2004) Actuarial Gains and Losses, Group Plans and Disclosures
IAS 21 (amended 2005) The Effects of Changes in Foreign Exchange Rates
IAS 39 (amended 2005) Cash Flow Hedge Accounting of Forecast Intragroup Transactions
IAS 39 (amended 2005) Financial Guarantee Contracts
IAS 39 (amended 2005) The Fair Value Option
IFRS 4 (amended 2005) Insurance Contracts – Financial Guarantee Contracts
IFRS 6 (2004) Exploration for and Evaluation of Mineral Resources
IFRIC 4 (2004) Determining whether an Arrangement contains a Lease
IFRIC 5 (2004) Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6 (2005) Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The major changes resulting from the initial application of revised or new standards during the financial year 2006 are described below:

In 2004 IAS 19 was amended with respect to the recognition of actuarial gains and losses arising from the valuation of post-employment defined benefit obligations (above all provisions for pensions and termination benefits) and an option was created to permit the direct recognition of these actuarial gains and losses in equity as an alternative to the application of the corridor method or immediate recognition through profit and loss. When these items are recognised directly in equity, the actuarial gains and losses for the period are shown on the statement of recognised income and expenses. In accordance with IAS 12, deferred tax assets and deferred tax liabilities related to an increase or decrease in the provisions for pensions and termination benefits must be calculated and recorded directly in equity without recognition to profit or loss in keeping with the underlying transaction.

According to the corridor method previously applied by the RHI Group, actuarial gains and losses were only recognised when they exceeded 10 percent of the higher of the present value of the obligation and the fair value of plan assets at the end of the prior period. Any amounts in excess of this corridor were distributed over the average remaining service period of the employees covered by the plan, with appropriate recognition through profit or loss. Fluctuations in actuarial gains and losses within the corridor were not recognised because they were immaterial. Unrecognised actuarial losses represented a deficit in the recognised obligation.

The application of the new option for the recognition of pension and termination benefit obligations also requires the full inclusion of unrealised actuarial gains and losses in the relevant provisions. These actuarial gains and losses are recorded in equity without recognition through profit or loss after the deduction of deferred taxes.

In order to improve the transparency of reporting, the RHI Group has elected to use the new option provided by the IASB and change the method used to record the provisions for pensions and termination benefits. This change was made as of 31 December 2006.

The adjustments for the 2005 financial year resulting from the retroactive application of this option involve profit for the period and equity, the provisions for pensions and termination benefits, deferred tax assets and deferred tax liabilities.

Therefore, the following components of the annual financial statements were affected by the change in the method used to record defined benefit obligations: balance sheet, income statement, statement of recognised income and expenses, cash flow statement and notes.

The adjustment of amounts for the 2005 financial year led to an improvement of € 0.5 million in operating results, € 0.3 million in profit for the year and € 0.01 in earnings per share (basic and diluted). However, this had no effect on equity in periods prior to the 2005 financial year. In the balance sheet as of 31 December 2005, negative equity rose by € 31.4 million to € 212.5 million. The provisions for pensions and termination benefits increased by € 38.1 million and € 6.8 million, respectively. An increase of € 13.3 million in deferred tax assets to € 70.3 million is contrasted by a decrease of € 0.2 million in deferred tax liabilities to € 11.8 million. These non-cash transactions did not influence cash flows, but did lead to a change in the individual components of cash flow from operating activities.

The prior year amounts for the discontinued Insulating Division were not adjusted because they are immaterial.

If the consolidated financial statements for 2006 had been prepared according to the method previously used, the results would have been as follows:

On the income statement, operating results would have been reduced by € 3.6 million, profit for the year by € 2.6 million, diluted earnings per share by € 0.06 and basic earnings per share by € 0.10. The balance sheet as of 31 December 2006 would have shown an increase in equity by € 37.7 million, a reduction in provisions for pensions and termination benefits by € 44.3 million and € 8.4 million, respectively, as well as a value € 0.2 million higher for shares in associates. Deferred tax assets would have declined by € 15.2 million.

The amendments to IAS 19 also had an impact on the presentation and scope of the information provided in the notes.

The change in IAS 21 "The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation" requires the monetary assets and liabilities of a parent company or one of its subsidiaries in connection with a foreign operation to be accounted for as part of the net investment in the foreign operation, independent of the underlying currency. Therefore, any resulting foreign exchange differences must be recorded directly in equity on the consolidated financial statements without recognition through profit or loss (for the time being).

In agreement with the transition regulation of the revised accounting standard, the consolidated financial statements for 2005 were adjusted retroactively.

This change in accounting method had the following effects on the consolidated financial statements for 2006 (in brackets: adjustment to the consolidated financial statements for 2005): operating results and profit for the year increased by € 3.1 million (2005: decrease of € 2.8 million), basic earnings per share rose by € 0.12 (2005: decline of € 0.12) and diluted earnings per share increased by € 0.08 (2005: decrease of € 0.07). This change in the accounting policy had no impact on total equity.

The changes in prior year figures resulting from the application of the amendments to IAS 19 and IAS 21 are indicated in footnotes to the relevant items.

IFRS 6 regulates the accounting treatment of expenditures incurred in connection with the exploration and evaluation of mineral resources such as minerals, oil, natural gas and similar non-regenerative resources, before the technical feasibility and commercial viability of the resources has been demonstrated. IFRS 6 does not prescribe any special accounting treatment for exploration and evaluation expenditures, but regulates the framework for the development of an accounting policy by the recording company. The RHI Group will recognise such costs under intangible assets or property, plant and equipment; any such costs will be monitored up to the start of production and tested for impairment as of each balance sheet date in accordance with IAS 36.

The other changes in accounting policies have no material impact on the Group's financial position or the results of its operations and cash flows.

New financial reporting standards not yet adopted
The IASB has issued new standards and amendments to standards and interpretations that do not call for mandatory application during the 2006 financial year.

The following standards were adopted by the EU prior to the preparation of the consolidated financial statements and published in the Journal of the European Union:

IAS 1 (amended 2005) Capital Disclosures
IFRS 7 (2005) Financial Instruments: Disclosures

The addition to IAS 1 "Presentation of Financial Statements" requires additional information on capital, e.g. on the capital structure as well as its determination and administration by management and any possible regulatory requirements governing the capital structure.

In August 2005 the IASB issued IFRS 7. This standard requires the disclosure of additional information on the significance of financial assets and liabilities for the financial position and results of operations of the company, and includes new requirements for the reporting of risks related to financial assets and liabilities.

The effect of the initial application on the RHI consolidated financial statements for 2007 is currently under evaluation.

The initial application of the other new standards and interpretations that are listed but not described in these notes will presumably not have a material impact on the RHI Group:

IFRS 1 (amended 2005) First-time Adoption of International Financial Reporting Standards
IFRS 6 (amended 2005) Exploration for and Evaluation of Mineral Resources
IFRIC 7 (2005) Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8 (2006) Scope of IFRS 2
IFRIC 9 (2006) Reassessment of Embedded Derivatives

The IASB also issued a number of reporting regulations that had not been adopted by the EU before the RHI consolidated financial statements were prepared:

IFRS 8 (2006) Operating Segments
IFRIC 10 (2006) Interim Financial Reporting and Impairment
IFRIC 11 (2006) IFRS 2 – Group and Treasury Share Transactions
IFRIC 12 (2006) Service Concession Arrangements

The IASB issued IFRS 8 in November 2006. In accordance with this standard, the identification of segments must be based on regular financial information, which is used by decision-makers to assess performance and allocate resources. IFRS 8 is applicable to financial years beginning on or after 1 January 2009. The initial application of IFRS 8 is not expected to have any material impact on the RHI Group.

In IFRIC 10 the International Financial Reporting Interpretations Committee (IFRIC) stated that impairment charges to goodwill and certain financial assets, which were recognised in interim financial statements and for which the reversal of impairment charges is prohibited by IAS 36 and IAS 39, may not be reversed in subsequent interim financial statements or consolidated financial statements. IFRIC 10 is applicable to financial years beginning on or after 1 November 2006.

The initial application of IFRIC 11 and IFRIC 12 is not expected to have any material impact on the RHI Group.

Other changes in accounting policies

Following the sale of the Heraklith Group, the Group's internal reporting was restructured for management purposes and the remaining Refractories Division was classified into the steel and industrial segments as well as the raw materials, production and other segment.

In agreement with International Financial Reporting Standards, RHI changed its segment reporting as of 1 January 2006 from the segmentation applied in the consolidated financial statements for 2005 to reflect the new internal reporting structure used by the Group. The prior year figures were adjusted accordingly.

Principles of Accounting and Measurement

A Principles of consolidation

The financial statements of all companies included in the consolidation were prepared as of the Group closing date on 31 December 2006.

Subsidiaries

Subsidiaries are all companies in which the Group exercises control over financial and operating policies, and also generally holds more than 50 percent of voting rights. The determination of whether control exists also includes the existence and impact of potential voting rights that are currently exercisable or convertible.

The purchase method is used to account for all business combinations. Under this method, the purchase price for the shares in a consolidated subsidiary, including any direct transaction costs, is offset against the proportional share of net assets based on the fair value of acquired assets and liabilities on the date of acquisition or transfer of control.

Identifiable intangible assets are recognised separately and amortised on a systematic basis. If the useful life cannot be determined, the intangible assets are tested at least once each year for impairment in accordance with the procedure used for goodwill.

Any remaining goodwill is allocated to the relevant cash-generating unit and tested for impairment at this level. In accordance with the provisions of IFRS 3, negative goodwill is recognised immediately to profit or loss. Goodwill that arose prior to 1 January 2002 and was netted out against equity remains part of reserves. In the case of impairment or deconsolidation, it is accounted for without recognition to profit or loss in accordance with the provisions of IFRS 3.

All intragroup receivables and liabilities as well as income and expenses are eliminated.

Intragroup profits on the sale of non-current assets and inventories are eliminated.

In accordance with IAS 12, deferred taxes are calculated on temporary differences arsing from the consolidation.

Subsidiaries are deconsolidated on the day control ends.

Joint ventures and associates

Joint ventures are consolidated at equity.

The equity method is used to consolidate major associates in cases where the RHI Group holds between 20 and 50 percent of the shares and is able to exercise a significant influence. The acquisition cost of investments included at equity is increased or decreased each year to reflect the change in equity of the individual associates that is attributable to the RHI Group. The principles applicable to full consolidation are applied analogously to the acquisition cost of these investments and the fair value of the Group's share in the equity of the associates.

B Foreign currency translation

Functional currency and reporting currency

The individual positions in the accounts of foreign Group companies are valued in the currency of the primary economic environment in which the company operates (functional currency).

This is the local currency for all Group companies, with the exception of Magnesit Anonim Sirketi, Eskisehir, Turkey. The annual financial statements of Magnesit Anonim Sirketi are consolidated in euros.

The consolidated financial statements are presented in euros, which represent the functional and reporting currency of RHI AG.

Foreign currency transactions and balances

Foreign currency transactions in the individual financial statements of Group companies are translated into the functional currency based on the exchange rate in effect on the date of the transaction. Gains and losses arising from the settlement of such transactions and the measurement of foreign currency receivables and liabilities at the exchange rate in effect on the balance sheet date are recognised in the income statement.

Group companies

The annual financial statements of foreign subsidiaries that have a different functional currency than the Group reporting currency are translated into euros as follows:

Assets and liabilities are translated at the exchange rate on the balance sheet date, while the income statement is translated at the average monthly exchange rate. Any differences resulting from this translation process as well as differences resulting from the translation of amounts carried forward from the prior year are recorded directly in equity without recognition to profit or loss. Cash flows are translated at average monthly exchange rates.

Unrealised currency translation differences resulting from non-current shareholder loans are offset against the currency translation reserve without recognition to profit or loss.

The euro exchange rates for the major Group currencies are shown in the following table:

	Closing rate		Average rate	
	31.12.2006	31.12.2005	2006	2005
Pound sterling	0.67040	0.68800	0.68217	0.68758
Canadian dollar	1.53050	1.37400	1.41000	1.52100
Chilean peso	702.47000	608.96000	661.71500	703.70583
Croatian kuna	7.38500	7.37550	7.34333	7.46250
Mexican peso	14.26000	12.58400	13.62583	13.72233
Chinese renminbi yuan	10.29900	9.55360	10.01923	10.27746
South African rand	9.17000	7.47150	8.44167	7.92417
Slovenian tolar	239.64000	239.60000	239.65833	239.75000
Hungarian forint	250.20000	252.45000	264.47083	247.97500
US dollar	1.31600	1.18470	1.25167	1.25425

C Property, plant and equipment

Property, plant and equipment are measured at acquisition or production cost, less systematic depreciation. These assets are depreciated on a straight-line basis over the expected useful life. Depreciation is calculated pro rata temporis beginning in the month the asset is available for use, i.e. when the asset is at its designated location and ready for operations as intended by management.

Assets that are held to generate rental or leasing income or to realise a long-term increase in value and are not used in production or administration are of lesser importance, and are included under property, plant and equipment. These assets are measured at depreciated cost.

Leased property, plant and equipment that qualify as asset purchases financed with long-term funds are capitalised at the lower market value of the asset or the present value of the lease payments in accordance with IAS 17. The leased assets are depreciated on a systematic basis over the expected useful life. The payment obligations resulting from future lease instalments are discounted and recorded as liabilities. Current lease payments are apportioned between a finance charge and the reduction of the outstanding liability. All other leases are treated as operating leases and attributed to the lessor. The lease payments resulting from operating leases are expensed as incurred.

The production cost of internally generated assets comprises direct costs as well as a proportional share of production overheads. The cost of debt is not capitalised for property, plant and equipment whose production or purchase extends over a longer period of time.

Expected demolition and disposal costs at the end of an asset's useful life are capitalised as part of acquisition cost and recorded in a provision. The criteria for this treatment are a legal or constructive obligation toward a third party and the ability to prepare a reliable estimate.

Systematic depreciation in the RHI Group is based on the following useful lives:

Factory buildings	15 to 50 years
Other buildings	10 to 50 years
Land improvement	8 to 50 years
Technical equipment and machinery	3 to 60 years
Other plant, furniture and fixtures	3 to 20 years

The remaining carrying values and economic useful lives are examined as of each balance sheet date, and adjusted if necessary.

Depletion is recorded on raw material deposits in accordance with the units of production method.

Regular maintenance and repair costs are expensed as incurred. When components of plant or equipment must be replaced at regular intervals, the relevant replacement costs are capitalised as incurred if the criteria set forth in IAS 16 have been met. The carrying value of the replaced components is derecognised.

Gains or losses on the disposal of non-current assets, which represent the difference between the net realisable value and carrying value, are recognised as income or expense in the income statement.

D Goodwill

Goodwill is recognised as an asset in accordance with IFRS 3. It is tested for impairment at least once each year, or when a change in circumstances indicates that the asset could be impaired.

Goodwill that has been fully written off through an impairment charge is included under disposals on the schedule of non-current assets.

In accordance with IFRS 3, negative goodwill is recognised immediately through profit or loss.

E Other intangible assets

Research costs are expensed in the year incurred.

Development costs also represent expenses in the period incurred. They are only capitalised if the intangible asset is expected to generate probable future cash flows that not only cover normal costs, but also the related development costs. In addition, the recognition criteria defined in IAS 38 must be met.

Capitalised development costs are amortised on a straight-line basis over the expected useful life, which does not exceed ten years.

The development costs incurred for internally generated software are expensed as incurred, if their primary purpose is to maintain the functionality of existing software.

Expenses that can be directly and conclusively allocated to individual programmes and represent a significant extension or improvement over the original condition of the software are capitalised as production costs and added to the original purchase price of the software. These direct costs include the personnel expenses for the development team as well as a proportional share of overheads.

Software is amortised over a period of four years.

Purchased intangible assets are measured at acquisition cost, which also includes related transaction costs, less systematic amortisation calculated over a useful life ranging from three to ten years.

F Impairment of property, plant and equipment and intangible assets

Property, plant and equipment as well as intangible assets, including goodwill, are tested for impairment if there is any indication that the value of these items may be impaired. Intangible assets with an indefinite useful life are tested annually for impairment.

An asset is considered to be impaired if its recoverable amount is less than the carrying amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use (present value of future cash flows).

If the reasons for a previously recognised impairment loss cease to exist, the asset is written up to its carrying amount. This procedure does not apply to goodwill.

In order to carry out impairment tests, assets are first combined into groups (cash-generating units) for which separate cash flows can be determined. In the Refractories Division, each plant represents the smallest cash-generating unit.

An impairment test is based on the value in use. The discounted cash flow method is used, and incorporates the terminal value based on growth of 1.5 percent (2005: 1.5 percent) and an interest rate of 7.55 percent (2005: 6.39 percent).

G Financial assets and liabilities

Material financial assets and liabilities comprise the financial assets shown on the balance sheet as well as non-current and current receivables, securities and shares in other companies, cash and cash equivalents, non-current and current financial liabilities, trade payables and other liabilities.

At the time of acquisition, financial assets are classified at fair value through profit or loss, held-to-maturity or available-for-sale. This procedure does not apply to loans granted or receivables. The classification of these assets is re-examined on a regular basis.

Shares in non-consolidated subsidiaries and other companies as well as securities are classified as available-for-sale because they should not be measured voluntarily at fair value through profit or loss, are not held-for-trading purposes and do not have a fixed term that would permit their classification as held-to-maturity.

If the Group has no plans to sell these assets within the next 12 months, they are included under non-current assets.

Available-for-sale financial assets are initially measured at cost plus any related transaction expenses. The subsequent measurement reflects fair value, and any changes in fair value are recorded directly in equity without recognition to profit or loss.

An impairment test is performed whenever there are indications that financial assets may be impaired. When an asset is impaired, the carrying value is reduced with an appropriate charge to profit or loss. If the reasons for impairment cease to exist, the carrying value is increased accordingly.

If there is no active market for an asset and its fair value cannot be determined reliably with a reasonable effort, shares in non-consolidated subsidiaries and other companies are measured at cost. If there are indications that the fair value is lower, the carrying value is adjusted to equal this amount.

All purchases and sales of financial assets are recognised as of the trading date.

Non-current receivables are measured at their net carrying amount. The exchange rate in effect on the balance sheet date is used to translate foreign currency receivables.

If non-current receivables are due within 12 months of the balance sheet date, they are included under current assets.

H Deferred taxes

Deferred taxes are recognised on temporary differences between the tax base and the IFRS carrying value of assets and liabilities, tax loss carryforwards and consolidation entries.

The RHI Group only recognises deferred tax assets if it is reasonably certain that sufficient taxable profit, including results from the reversal of taxable temporary differences, will be available within a five-year planning period to utilise the deferred tax assets.

The calculation of deferred taxes is based on the tax rate expected in the individual countries at the time of realisation (17 to 40 percent), and generally reflects the enacted or substantively enacted tax rate on the balance sheet date.

Deferred tax assets and liabilities are netted out if there is an enforceable right to offset current tax receivables against current tax liabilities, and if the deferred taxes are due from/to the same tax authorities.

Deferred tax assets are shown under non-current assets, and deferred tax liabilities are shown under non-current liabilities.

Deferred taxes are recognised on temporary differences relating to shares in subsidiaries and associates, unless the parent company is in a position to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse.

I Inventories

Inventories are stated at acquisition or production cost, or the lower net realisable value as of the balance sheet date.

The determination of cost is based on the moving average price method.

Finished goods and work in process are valued at production cost. Interest expense on debt is not capitalised.

J Construction contracts

Construction contracts are accounted for using the percentage of completion method if the criteria defined in IAS 11 have been met. This method is not applied to contracts that have an immaterial effect on the consolidated financial statements of the RHI Group.

Under the percentage of completion method, production costs plus an appropriate mark-up for profit based on the stage of completion are recognised under receivables from construction contracts and under revenues. The stage of completion is generally based on the expenses incurred as a percentage of the expected total expenses for the contract. Any expected losses on a contract are covered by provisions, which also reflect identifiable risks. Prepayments received from customers are deducted from contract receivables. Any resulting negative balance on a construction contract is recorded as a liability from construction contracts.

K Receivables

Receivables are carried at nominal value. The provisions for risk cover all identifiable credit risks.

Foreign currency receivables are translated at the exchange rate in effect on the balance sheet date.

L Emission rights

Since 1 January 2005 RHI has been subject to the European emission trading system, which provides for the allocation of certificates that grant emission rights to specific companies. These certificates must be redeemed with the responsible authority within four months after the end of a calendar year based on the actual level of emissions for that year. If the actual volume of emissions exceeds the rights allocated for the particular year, the company must purchase additional rights to remedy the deficit.

Purchased rights are carried at cost under other assets. These assets are derecognised when the certificates are returned to the responsible authority. Rights received free of charges are not recognised in the balance sheet.

As of 31 December 2006 the company did not need to purchase any additional emission certificates.

M Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cheques and cash at banks.

Cash and cash equivalents in foreign currencies are translated at the exchange rate on the balance sheet date.

N Convertible bonds

Convertible bonds are financial instruments that have both a debt and equity component. The present value of the liability and the equity portion of the bond were established on the issue date, whereby the calculation of the present value of the liability was based on the market interest rate for an equivalent, non-convertible bond. The remaining difference to the nominal value of the bond, which represents the value of the conversion option, is included under additional paid-in capital. Deferred taxes were not calculated for this difference based on the assumption that all individual convertible bond certificates will be converted.

The convertible bond liability is stated at its net carrying value until redemption or conversion. The interest expense on the convertible bond was calculated using an internal interest rate of roughly 7.3 percent.

O Provisions

Provisions are created when the Group incurs a legal or constructive obligation to a third party as a result of past events and it is probable that an outflow of resources will be required to meet this obligation, and the amount of the obligation can be reliably estimated.

Non-current provisions are measured at their discounted repayment value as of the balance sheet date, if the interest effect of the discount is material.

Personnel provisions

Provisions for pensions

With respect to post-employment benefits, a differentiation is made between defined contribution and defined benefit plans.

Defined contribution plans limit the company's obligation to the agreed amount of contributions. The related expenses are included under personnel costs, and a provision is not required. The RHI Group has defined contribution plans in Canada, Great Britain and, in part, also in Austria.

Defined benefit plans require the company to provide the agreed amount of benefits to active and former employees and their dependents, whereby a differentiation is made between pension systems financed through provisions and pension systems financed by funds. In Austria and Germany, the majority of pension commitments are financed through additions to provisions. The RHI Group has pension plans that are financed through funds in Mexico, Great Britain and, in part, also in Germany and Austria.

For pension plans financed through funds, the pension obligation is calculated according to the projected unit credit method and reduced by the fund assets. If the fund assets are not sufficient to cover the obligation, the net obligation is recognised as a liability under the provisions for pensions. The calculation of provisions for pensions is based on actuarial methods in accordance with IAS 19. The present value of future benefits is based on the length of service, expected wage/salary developments and pension adjustments.

The pension cost to be recognised for a particular period comprises the current service cost, interest expense, expected income on plan assets and income or expense from the recognition of past service costs over time.

Actuarial assumptions are required to calculate these obligations, above all regarding the interest rate used for discounting, but also the rates of increases in wages/salaries and pensions as well as the retirement age and probability of employee turnover and actual claims.

The calculation is based on local biometric parameters.

The present value of future benefits is calculated using an interest rate that reflects the average yield on government or industrial bonds with a similar term.

The rates of increase for wages/salaries were based on an average of past years, which is also considered to be representative of the future.

The discounts applied to employee turnover and the probability of actual claims are based on figures from comparable prior periods.

The calculation of pension obligations reflects the expected retirement age based on the underlying commitments.

For pension commitments that limit claims to the amount of plan assets, the present value of the obligation equals the total amount of plan assets.

Actuarial gains and losses are recorded directly to equity in the period incurred, after the deduction of deferred taxes and without recognition to profit or loss.

Provisions for termination benefits
Provisions for termination benefits are comprised primarily of obligations to employees under Austrian law and, to a lesser extent, of obligations under other local regulations.

Termination benefits as defined by Austrian labour law represent mandatory lump-sum payments to employees, which are required when the employer terminates the employment relationship or when the employee retires. The amount of the termination payment is dependent on the last wage/salary as well as the length of service. RHI has direct obligations to employees who joined the company up to and including 2002, for which provisions were created and measured in accordance with IAS 19.

The projected unit credit method is used for these calculations. Actuarial gains and losses are recorded directly in equity, and the relevant income and expenses are included in the statement of recognised income and expenses.

An amendment to legal regulations in Austria requires employers to make regular contributions equal to 1.53 percent of the monthly wage/salary to a statutory termination benefit scheme for all employees who joined an Austrian company during or after 2003. The company has no further obligations above and beyond these contributions. Claims by employees to termination benefits are filed with the statutory termination benefit scheme, while the regular contributions are treated similar to those for defined contribution pension plans and included under personnel expenses.

Other personnel provisions
Other personnel provisions include provisions for service anniversary bonuses, lump-sum settlements and payments to semi-retirees.

Service anniversary bonuses are one-time special payments that are dependent on the employee's wage/salary and length of service. The employer is required by collective bargaining agreements or company agreements to make these payments after an employee has reached a certain number of uninterrupted years of service with the same company.

When a company has a legal obligation to pay service anniversary bonuses, the relevant provisions are calculated in accordance with the employees' length of service based on an interest rate of 4.25 percent (31.12.2005: 4.5 percent) and an increase of 3.25 percent (31.12.2005: 3.5 percent) in wages/salaries.

Individual companies in the RHI Group are required by company agreements to make lump-sum settlement payments. In addition, local labour laws and other similar regulations require certain Group companies to create provisions for part-time work for older employees.

Provisions for warranties
Provisions for warranties are created as required for individual contracts. The amounts of the provisions are based on expected or actual warranty claims.

P Liabilities

Liabilities are measured at the higher of nominal value or repayment amount in keeping with the cost or market principle. Foreign currency liabilities are translated at the exchange rate in effect on the balance sheet date.

Q Subsidies

Investment subsidies are recognised as liabilities, and released through profit or loss over the useful life of the relevant asset.

This procedure is not applied to subsidies that were granted as compensation for expenses or losses previously incurred. Such items are recognised immediately as income.

R Revenue and expenses

Revenue is generally realised when a service is performed or when risk is transferred to the customer, whereby rebates and other sales deductions are subtracted prior to recording. Revenue is realised on construction contracts according to the percentage of completion method, if the requirements of IAS 11 have been met.

Expenses are recognised in the income statement when a service is consumed or the costs are incurred.

Interest income and expenses are recognised in accordance with the effective interest rate method.

Income taxes are recognised in keeping with the local regulations applicable to each company.

S Discontinued operations

A discontinued operation represents a component of a company that was sold or is classified as held for sale. It can be a subsidiary that was acquired solely with the intention to resell, or a major line of business or geographical operation.

An operation is classified as discontinued when it is sold, or at an earlier date if the criteria defined in IFRS 5 for classification as held for sale have been met.

The depreciation of non-current assets belonging to the discontinued operation ceases as of the date the operation is classified as discontinued. Assets and liabilities are carried at the lower of book value or selling price less costs to sell.

Prior year data relating to a discontinued operation held for sale is shown separately on the income statement without any valuation adjustments. On the balance sheet, no adjustments are made to prior year figures. In contrast, the cash flow statement for the prior year is adjusted in accordance with IFRS 5.

The discontinued Insulating Division has been accounted for in accordance with the provisions of IFRS 5 since 1 October 2005.

T Segment reporting

The segmentation of the RHI Group into the Refractories Division – with the steel and industrial as well as the raw materials, production and other segments – and the Insulating Division reflects the internal organisational and management structure, and therefore forms the basis for primary segment reporting. The Insulating Division is presented as a discontinued operation.

The secondary segmentation is based on regions. Revenues are allocated according to the customer location, while assets and investments are classified by the location of the relevant Group company.

Transfer prices between the divisions are based on normal market conditions.

U Financial risk management

The RHI Group is exposed to a variety of financial risks, above all credit risk, liquidity risk, foreign exchange risk and interest rate risk.

In order to limit the risks that result from the worldwide operations and financing structure of the RHI Group, RHI has implemented a central risk management system in all its member companies.

The Group headquarters is responsible for the identification, analysis and assessment of financial risks as well as decisions on the use of financial instruments to manage these risks. The possible use of derivative financial instruments in this context is monitored by management.

Risk factors

Credit risk

Credit risk represents the risk of a possible loss due to the failure of business partners to meet contractual obligations. Even if the contract partners have an excellent credit rating, the risk of default that is associated with the underlying transaction is hedged as far as possible through credit insurance and bank securities (guarantees, letters of credit). The applicable credit criteria are defined in contracts with the credit insurers. Credit risk and the associated risk of default are monitored continuously, and provisions and valuation allowances are recorded to reflect actual and identifiable risks.

The evaluation of the overall risk position of the Group incorporates existing insurance coverage as well as guarantees and letters of credit.

The risk of default is not concentrated on one customer group or sector because the RHI Group is active in many different customer branches and has a large number of business partners, and also maintains sufficient coverage through credit insurance.

Liquidity risk

Liquidity risk is the risk associated with a company's ability to raise sufficient funds to meet its obligations on a timely basis. The Group's financing policy is based on long-term planning, and is managed and monitored centrally by RHI.

RHI was provided with € 400.0 million of subordinated interest-free lines of credit by the restructuring agreement that was concluded at the beginning of 2002; these facilities have been used in full. The subordinated status of these liabilities terminated as of 31 December 2006. According to the restructuring agreement, these lines of credit are available to RHI up to 2013 and carry interest starting on 1 January 2007. In addition, the RHI Group had a further € 217.7 million of credit facilities as of 31 December 2006.

Based on a revolving cash flow forecast, the liquidity of all RHI Group companies is secured by an adequate volume of unused and committed lines of credit that are available on short notice.

Foreign exchange risk

Foreign exchange risk is defined as the risk arising from fluctuations in the value of financial instruments, other balance sheet items (e.g. receivables and liabilities) and/or cash flows due to fluctuations in exchange rates. This risk arises above all in countries where business transactions are or could be conducted in a different currency than the local currency (in the following, foreign currency).

The international structure of business operations in the RHI Group provides a broad-based, natural hedge for the risk associated with foreign currency receivables and liabilities. The Group holds foreign currency receivables and liabilities with similar terms in the same currency.

Due to the centralised nature of RHI operations, the majority of invoices as well as all procurement transactions – i.e. raw materials, supplies and energy – that are concluded in euros or foreign currencies are coordinated by the responsible headquarters departments. This provides the Group with a transparent overview of the major foreign exchange risks that could arise from its worldwide operations.

As of the balance sheet date, no foreign currency positions were hedged with derivative financial instruments because the remaining net risk was immaterial.

The interest-bearing financial liabilities held by the RHI Group as of the balance sheet date were denominated primarily in euros, and will therefore not create a material foreign exchange risk.

Interest rate risk

Interest rate risk reflects the risk associated with a change in the value of financial instruments, other balance sheet items and/or interest-related cash flows due to fluctuations in market interest rates. Interest rate risk comprises the present value risk related to fixed-interest balance sheet items as well as the cash flow risk on variable-interest balance sheet items.

For fixed-interest financial instruments, a market interest rate is arranged for the entire term. The risk associated with such instruments arises from a possible change in market value (the present value of future cash flows, i.e. interest expense and principal repayments, discounted at the market rate applicable to the remaining term to maturity as of the balance sheet date) if interest rates fluctuate. This interest-related market risk will lead to a gain or loss if the fixed-interest financial instrument is sold before the end of the term.
For variable-interest financial instruments, the interest rate is adjusted regularly and generally follows the market rate. The risk associated with variable-interest financial instruments arises from a possible change in the market rate that may lead to a change in interest payments.

The interest-bearing financial liabilities and subordinated convertible bonds used for financing purposes by the RHI Group comprise approximately 70 percent of fixed-interest instruments and approximately 30 percent of variable-interest instruments.

Interest rate risk was not hedged with derivative financial instruments as of the balance sheet date because the financing structure of the Group is secured over the long-term through a sound balance of financing sources.

Derivative financial instruments

Derivative financial products are evaluated and arranged for centrally by RHI in connection with the management of financial risk by Group headquarters.

An embedded derivative is a component of a hybrid instrument that meets the following criteria: the economic characteristics and risks of the derivative are not closely linked with those of the host contract; a transaction concluded under the same conditions would have to be reported as a derivative financial instrument and the hybrid financial instrument is not recognised at present value through profit or loss.

Embedded derivatives are used in the RHI Group above all for outstanding orders and trade receivables denominated in foreign currencies. The host contracts are primary financial instruments, which are measured at their net carrying amount. The derivative financial instruments are separated from the host contract, measured at fair value and recorded under other income or expense.

Fair values

The trade receivables, other receivables and payables, and cash and cash equivalents shown on the RHI balance sheet generally approximate fair value because of their short term to maturity.

The fair values of financial liabilities are calculated as the present value of discounted future cash flows, based on the market rates applicable to financial liabilities with a similar term and risk structure.

V Assumptions and estimates

The application of accounting policies by the RHI Group also involves the use of forward-looking assumptions and estimates concerning non-current assets, valuation adjustments to inventories and receivables, provisions and deferred taxes. The actual values realised at a later date may differ from these assumptions and estimates.

Impairment of intangible assets and property, plant and equipment

Intangible assets with a definite useful life and property, plant and equipment must be tested for impairment when events or a change in circumstances indicate that the carrying amount of an asset may not be recoverable. In accordance with IAS 36, such impairment losses are determined through comparisons with the discounted future cash flows expected from the related assets. A possible need to recognise an impairment charge is evaluated on the basis of cash flows from the cash-generating unit to which the asset is allocated. The expected future cash flows are determined and discounted for each cash-generating unit. A decrease of 10 percent in the estimated contribution margin would lead to an impairment charge of € 23.4 million, while an increase of 10 percent in the discount rate would not result in a write-down of the carrying amount.

Impairment of goodwill

The effect of an adverse change of +10 percent in the interest rate or -10 percent in the contribution margin as estimated on 31 December 2006 would not result in an impairment charge to goodwill.

In accordance with IAS 36, impairment losses recognised in goodwill in previous years may not be reversed if the actual interest rate lies below or the actual contribution margin lies above the estimates made by management.

Provisions for pensions

The present value of the pension obligation is dependent on a number of factors which, in turn, are based on actuarial assumptions. The assumptions used to determine these expenses include the rate of increase in salaries and wages as well as the interest rate. Any change in the assumptions will have an effect on the present value of the obligation.

The rate of increase in salaries and wages represents an average of past years, which is also considered to be realistic for the future.

The Group determines an appropriate interest rate at the end of each year. This interest rate is used to calculate the present value of the expected future cash outflows required to settle the obligation. The calculation of the interest rate is based on the interest rate for government or industrial bonds of the highest rating, which are denominated in the currency in which the benefits will be paid and whose term reflects the term of the pension obligation.

Other key assumptions are based in part on market conditions. Additional explanations are provided under note 16.

If the interest rate, including future wage/salary increases, varied 10 percent from the estimates made by management, the present value of the pension obligations would be € 16.4 million higher or € 15.1 million lower.

Deferred taxes

If future taxable profits during the planning period used to calculate deferred taxes varied by 10 percent from the assumptions made as of the balance sheet date, the net position recognised for deferred taxes would presumably require an adjustment of € 3.6 million.

Changes in the estimates and assumptions underlying the other balance sheet items would not have a material impact on the Group's financial position, the results of its operations or its cash flows for the following financial year.

W Consolidation range

In addition to RHI AG, the consolidated financial statements include 72 subsidiaries, in which RHI AG directly or indirectly owns the majority of shares or exercises management control.

Four companies whose operating and financial policies are significantly influenced by Group companies (associates) are included in the consolidation at equity.

The consolidation range changed as follows during the reporting year:

	Full consolidation	Equity method
31.12.2005	**86**	**5**
Additions	8	0
Disposals	-21	-1
31.12.2006	**73**	**4**

	Full consolidation	Equity method
31.12.2004	**83**	**7**
Additions	6	1
Disposals	-3	-3
31.12.2005	**86**	**5**
thereof discontinued operations	20	1

Fully consolidated subsidiaries

Additions in 2006

The consolidation range was enlarged in 2006 to include the following newly founded subsidiaries:

Dutch US Holding B.V., Arnhem, Netherlands (21.9.2006, 100 percent)
Liaoning RHI Jinding Magnesia Co., Ltd., Dashiqiao City, PR China (29.3.2006, 80 percent)
RHI Isithebe (Pty) Limited, Sandton, South Africa (26.9.2006, 100 percent)
RHI Monofrax, Ltd., Wilmington, USA (23.10.2006, 100 percent)
RHI Monofrax PPE LLC, Wilmington, USA (7.12.2006, 100 percent)
RHI Trading (Dalian) Co., Ltd., Dalian, PR China (26.4.2006, 100 percent)
VERA FE, Dnipropetrovsk, Ukraine (12.5.2006, 100 percent)

On 27 December 2006 VRD Americas B.V., Arnhem, Netherlands, acquired a 51 percent stake in Clasil Refractories Private Limited, Hyderabad, India. The acquired company, which was renamed RHI Clasil Limited, started operations at a refractories plant in Venkatapuram, Andhra Pradesh Province, at the beginning of 2007. In addition to the current production of bricks and mixes, plans also call for the production of prefabricated construction parts and the addition of a line to manufacture slide gates.

The initial consolidation was made as of the balance sheet date, and did not result in any major differences compared to consolidation on the date of acquisition.

The acquired net assets and goodwill are as follows:

in € million	31.12.2006
Cash outflows for acquisitions	1.6
Fair value of proportional share of acquired net assets	-1.5
Goodwill	**0.1**

The preliminary figures for the acquired assets and liabilities are shown in the following table:

in € million	Fair value
Property, plant and equipment	2.9
Inventories	0.1
Other current assets	0.2
Liabilities	-0.2
Net assets	**3.0**
Minority interest	-1.5
Net assets acquired	**1.5**

The IFRS carrying values directly before the business combination do not differ materially from the fair value of the assets, liabilities and contingent liabilities of the acquired company.

Since the initial consolidation was made on 31 December 2006, Group profit for 2006 does not include a share of profit from RHI Clasil Limited, Hyderabad, India.

Additions in 2005

On 1 February 2005 Heraklith AG, Ferndorf, Austria, acquired a 50 percent stake in Eurovek proizvodnja, uvoz-izvoz, d.o.o., Ljubljana, Slovenia, and thereby also acquired indirect stakes in Termo d.d., Skofja Loka, Slovenia, and its investments Termo HandelsgmbH, Munich, Germany, Termika d.o.o., Novi Marof, Croatia, and Izomat a.s., Nova Bana, Slovakia, whereby the last two companies were fully consolidated before this time. In July 2005 a contract was concluded with the co-shareholder of Eurovek proizvodnja, uvoz-izvoz, d.o.o., Ljubljana, Slovenia, for the acquisition of the second 50 percent stake by Heraklith AG at the end of the year. This contract took effect on 27 December 2005.

Termo d.d., Skofja Loka, Slovenia, which was included in the consolidated financial statements at equity up to and including 2004, was fully consolidated in accordance with IFRS 3 for the first time as of 1 February 2005 based on a calculated holding of 65.39 percent following the purchase of a stake in Eurovek proizvodnja, uvoz-izvoz, d.o.o., Ljubljana, Slovenia.

The acquired net assets in Eurovek proizvodnja, uvoz-izvoz, d.o.o., Ljubljana, Slovenia, and Termo d.d., Skofja Loka, Slovenia, and the related goodwill as of 1 February 2005 are shown below:

in € million	
Payments on the purchase price made by the acquisition date	31.0
Costs directly attributable to acquisition	0.4
Total purchase price	**31.4**
Fair value of proportionate acquired net assets	-27.3
Goodwill	**4.1**

The following assets and liabilities were taken over in connection with the acquisition:

in € million	Fair value	Carrying amount
Property, plant and equipment	37.2	30.4
Intangible assets	9.7	0.2
Financial assets	0.2	0.2
Deferred tax assets	0.3	0.0
Inventories	4.6	5.3
Other current assets (excluding cash and cash equivalents)	12.5	13.3
Cash and cash equivalents	11.6	11.6
Compensation of minorities	0.4	0.4
Financial liabilities	-14.7	-14.7
Deferred tax liabilities	-3.9	0.0
Personnel provisions	-0.5	0.0
Other provisions	-3.7	-3.5
Other liabilities	-22.7	-22.7
Net assets acquired	**31.0**	**20.5**

in € million	
Purchase price paid in cash in 2005	17.8
Cash and cash equivalents from acquired companies	-11.6
Investments in subsidiaries	**6.2**

During the 2005 financial year, approximately 13.0 percent of the shares in Termo d.d., Skofja Loka, Slovenia, were acquired for € 6.5 million through a public offer.

Additional shares in Termo d.d., Skofja Loka, Slovenia, Izomat a.s., Nova Bana, Slovakia, and Termika d.o.o., Novi Marof, Croatia, were acquired indirectly through the purchase of the remaining 50 percent stake in Eurovek for € 18.5 million as of 27 December 2005.

Increases in stakes after control had been achieved were recognised directly in equity.

These newly acquired companies contributed € 67.4 million to Group revenues and € 6.2 million to profit during the period from 1 February 2005 to 31 December 2005. If the acquisitions had taken place on 1 January 2005, Group revenues would have totalled € 1,203.6 million and Group profit after tax € 82.8 million (adjusted).

In addition, Heraklith CEE Holding GmbH, Fürnitz, Austria, was founded during the 2005 financial year and initially consolidated as of 31 December 2005.

In February 2005 Didier-Werke AG, Wiesbaden, Germany, acquired all the shares of MARVO Feuerungs- und Industriebau GmbH with headquarters in Kerpen, Germany, which is specialised in the lining of industrial kilns with refractory products. Didier-Werke AG, Wiesbaden, Germany, previously held a stake of 33.33 percent in this company. The full takeover of MARVO Feuerungs- und Industriebau GmbH, Kerpen, Germany, also resulted in the acquisition of its subsidiary MARVO Feuerungs- und Industriebau GmbH in Siersleben, Germany. The cartel authorities approved this transaction on 7 March 2005. For reasons of simplification, 1 March 2005 was selected as the date of acquisition.

These two companies contributed € 5.4 million to Group revenues and € 0.2 million to profit for the period from 1 March 2005 to 31 December 2005. If the acquisition had taken place on 1 January 2005, Group revenues would have totalled € 1,200.8 million and Group profit after tax € 82.8 million (adjusted).

The acquired net assets and goodwill are as follows:

in € million	
Payments on the purchase price made by the acquisition date	2.8
Costs directly attributable to the acquisition	0.1
Total purchase price	**2.9**
Fair value of the acquired net assets	-2.7
Goodwill	**0.2**

in € million	
Purchase price paid in cash	1.6
Cash and cash equivalents of acquired companies	-0.6
Investments in subsidiaries	**1.0**

Disposals in 2006

Discontinued operations

On 20 September 2005 the Supervisory Board of RHI AG approved the plans of the RHI Management Board for the sale of the Insulating Division. The active search for a buyer and implementation of the sale plans began in September 2005.

The Insulating Division is combined under Heraklith AG, Ferndorf, in accordance with Austrian company law. On 13 January 2006 RHI Refractories Raw Material GmbH (formerly: Veitsch-Radex Immobilien GmbH), Vienna, and Veitsch-Radex GmbH & Co, Vienna, as the shareholders of Heraklith AG, Ferndorf, signed a share purchase agreement with Sepena Beteiligungsverwaltungs GmbH, Vienna, and Isogranulat – Gesellschaft mit beschränkter Haftung, Iphofen, Germany.

The sale price for the shares in Heraklith AG, Ferndorf, totals € 238.9 million (debt-free). The contract was fulfilled on 13 June 2006. For reasons of simplification, 1 June 2006 was selected as the date of deconsolidation.

Subsequently, the following companies belonging to the discontinued operations were deconsolidated by RHI:

C&G Verwaltungsgesellschaft mbH, Bad Berka, Germany
Deutsche Heraklith GmbH, Simbach, Germany
Eurovek proizvodnja, uvoz-izvoz, d.o.o., Ljubljana, Slovenia
Global B&C d.o.o., Ljubljana, Slovenia
Heraklith AG, Ferndorf, Austria
Heraklith CEE Holding GmbH, Fürnitz, Austria
Heraklith Consulting & Engineering GmbH, Fürnitz, Austria
Heraklith España S.L., Gijon, Spain
Heraklith Hungaria Kft., Zalaergerszeg, Hungary
Heraklith Nederland B.V., Bussum, Netherlands
Heraklith Polska Sp.z.o.o., Sroda, Poland
Heraklith VerwaltungsgmbH, Simbach, Germany
IDEAL – Baustoffwerk Mathias Reichenberger Gesellschaft m.b.H. & Co. KG, Frankenmarkt, Austria
Izomat a.s., Nova Bana, Slovakia
Mathias Reichenberger Gesellschaft m.b.H., Frankenmarkt, Austria
Nobasil CZ spol. s.r.o., Brno, Czech Republic
Termika d.o.o., Novi Marof, Croatia
Termo d.d., Skofja Loka, Slovenia
Termo HandelsgmbH, Munich, Germany
Thüringer Dämmstoffwerke GmbH & Co KG, Bad Berka, Germany

The net assets of the Insulation Group on the date of deconsolidation were as follows:

in € million	1.6.2006
Non-current assets (excluding deferred taxes)	175.1
Deferred tax assets	2.0
Inventories	27.9
Other current assets (excluding cash and cash equivalents)	47.4
Cash and cash equivalents	22.3
Liabilities to financial institutions and other financial liabilities	-141.5
Deferred tax liabilities	-5.6
Personnel provisions	-25.2
Other provisions	-3.2
Other liabilities	-52.8
Net assets	**46.4**

After the deduction of € 22.3 million in cash and cash equivalents belonging to the discontinued operations, the debt-free sale of the Insulating Division for € 238.9 million generated net cash and cash equivalents of € 216.6 million. The receivables of € 135.0 million that were due from the discontinued operations on the date of sale were paid through this transaction.

Other
Gen-X Technologies Inc., Burlington, Canada, was deconsolidated following its merger with RHI Canada Inc., Burlington, Canada, on 1 January 2006.

Disposals in 2005
Radex Vertriebsgesellschaft mbH, Radenthein, Austria, and Refmex, S. de R.L. de C.V., Ramos Arizpe, Mexico, were deconsolidated following their merger with other companies in the RHI consolidation range during 2005.

Oy Tulenkestävät Tiilet AB, Helsinki, Finland, was sold during the 2005 financial year. The cash flow generated by the disposal of this subsidiary is immaterial.

Companies consolidated at equity
Additions in 2005
Shandong RHI New Materials Co., Ltd., Zibo City, People's Republic of China, was founded during the financial year 2005 and included in the consolidation at equity. The stake owned by RHI equals 50 percent.

Disposals in 2006
Discontinued operations
DCD Ideal spol. s.r.o., Dynin, Czech Republic, an associate of the discontinued Insulating Division, was deconsolidated as of 13 June 2006.

Disposals in 2005
As of 1 January 2005 Stopinc AG, Hünenberg, Switzerland, and Magnomin S.A., Athens, Greece, which were previously consolidated at equity, were converted to valuation in accordance with IAS 39 because the co-shareholders no longer supported the preparation of financial statements in accordance with IFRS. The carrying amount of the shares as of 1 January 2005 was determined to equal the acquisition cost on the date of initial recognition in accordance with IAS 39.

Termo d.d., Skofja Loka, Slovenia, was fully consolidated as of 1 February 2005.

Subsidiaries not included in the consolidation
Five subsidiaries (2005: six) were not included in the consolidation because their influence on the Group's financial position, the results of its operations and its cash flows is considered to be immaterial. The combined revenues of these unconsolidated companies equal 0.03 percent (2005: 0.03 percent) of Group revenues.

At the beginning of 2002 the lead companies of 49 former US subsidiaries of the RHI Group (in particular Harbison Walker Refractories Co., AP Green Industries Inc. and North American Refractories Co.) filed for protection and reorganisation under Chapter 11 of the US Bankruptcy Code based on appropriate steps by the US management. These companies were no longer considered to be subsidiaries of RHI AG as of 31 December 2001 because the Chapter 11-proceedings do not permit RHI AG to exercise control.

A detailed overview of the shareholdings and consolidation range of RHI AG is provided under note 41.

Notes on Individual Balance Sheet Items

Assets

Non-current assets

The development of non-current assets is presented according to the main categories.

Assets held by foreign companies at the beginning and end of the year are translated into euros at the exchange rates in effect on the balance sheet date. Changes that take place during the year are translated at the average monthly exchange rates. The currency translation differences resulting from the use of different translation rates are shown separately.

(1) Property, plant and equipment

Property, plant and equipment developed as follows during 2006:

in € million	Real estate, land and buildings	Raw material deposits	Technical equipment and machinery	Other plant and office equipment	Prepayments made and plant under construction	Total
Cost at 31.12.2005	322.3	30.7	636.1	193.3	39.8	1,222.2
Currency translation	-4.7	0.0	-9.3	-1.4	-1.3	-16.7
Change in consolidated companies	0.3	0.0	1.5	0.1	1.0	2.9
Additions	5.5	0.3	14.9	7.1	19.2	47.0
Retirements and disposals	-1.7	-0.1	-13.2	-4.2	0.0	-19.2
Reclassifications	6.6	0.1	16.8	9.1	-34.3	-1.7
Cost at 31.12.2006	**328.3**	**31.0**	**646.8**	**204.0**	**24.4**	**1,234.5**
Accumulated depreciation at 31.12.2005	185.5	21.5	465.7	152.9	0.0	825.6
Currency translation	-1.2	0.0	-5.1	-0.7	0.0	-7.0
Depreciation charge	7.2	0.3	25.2	9.3	0.0	42.0
Retirements and disposals	-1.2	0.0	-10.9	-3.7	0.0	-15.8
Accumulated depreciation at 31.12.2006	**190.3**	**21.8**	**474.9**	**157.8**	**0.0**	**844.8**
Carrying amounts at 31.12.2006	**138.0**	**9.2**	**171.9**	**46.2**	**24.4**	**389.7**

Property, plant and equipment developed as follows during 2005:

in € million	Real estate, land and buildings	Raw material deposits	Technical equipment and machinery	Other plant and office equipment	Prepayments made and plant under construction	Total
Cost at 31.12.2004	375.8	30.4	725.7	202.8	49.0	1,383.7
Currency translation	7.7	0.0	13.8	1.9	1.8	25.2
Change in consolidated companies	20.6	0.0	12.4	1.8	5.5	40.3
Additions	4.6	0.3	16.7	7.4	39.6	68.6
Retirements and disposals	-4.1	0.0	-15.1	-9.2	-3.4	-31.8
Reclassifications	3.9	0.0	25.5	13.1	-44.2	-1.7
Reclassification of discontinued operations	-86.2	0.0	-142.9	-24.5	-8.5	-262.1
Cost at 31.12.2005	**322.3**	**30.7**	**636.1**	**193.3**	**39.8**	**1,222.2**
Accumulated depreciation at 31.12.2004	209.0	21.2	517.9	166.0	0.0	914.1
Currency translation	1.9	0.0	7.0	0.7	0.0	9.6
Change in consolidated companies	0.9	0.0	0.5	0.2	0.0	1.6
Depreciation charge	8.3	0.3	28.3	10.1	0.0	47.0
Impairment losses	0.0	0.0	0.0	0.0	0.3	0.3
Reversal of impairment losses	-0.2	0.0	-0.2	-0.3	0.0	-0.7
Retirements and disposals	-2.8	0.0	-14.0	-7.9	0.0	-24.7
Reclassifications	-0.2	0.0	-0.3	0.3	0.0	-0.2
Reclassification of discontinued operations	-31.4	0.0	-73.5	-16.2	-0.3	-121.4
Accumulated depreciation at 31.12.2005	**185.5**	**21.5**	**465.7**	**152.9**	**0.0**	**825.6**
Carrying amounts at 31.12.2005	**136.8**	**9.2**	**170.4**	**40.4**	**39.8**	**396.6**

During the financial year 2006, the estimated useful lives for gunning and mixing machines were reduced from 18 to an average of 10 years. The resulting effects are immaterial.

In 2005 impairment charges of € 0.3 million were recognised in the presumed net realisable value and reflected in the cost of sales of the discontinued Insulating Division.

Write-ups of € 0.7 million to property, plant and equipment in 2005 are included under other income, and relate to the raw materials, production and other segment. These write-ups represent the reversal of impairment charges, which were recorded because the respective cash-generating units are again earning sufficient cash.

Assets obtained through finance leases are included under property, plant and equipment, and totalled € 0.4 million in 2006 (31.12.2005: € 0.4 million). The related acquisition costs equalled € 0.8 million (31.12.2005: € 0.8 million). These assets are comprised primarily of plant and office equipment.

The income statement includes rental and lease payments for leased property, plant and equipment (operating leases) totalling € 14.5 million (2005: € 13.7 million).

The market value of assets that are held to generate rental and leasing income or to realise a long-term increase in value, and are not used in production or administration, approximates the carrying amount of these assets. This carrying value equalled € 2.3 million at year-end 2006 (31.12.2005: € 2.5 million). Rental income of € 0.2 million was generated during the reporting period (2005: € 0.2 million), and is contrasted by unchanged expenses of € 0.1 million.

The marketability of real estate totalling € 20.7 million (31.12.2005: € 21.4 million) is limited by its commitment as collateral for credits.

(2) Goodwill

Goodwill developed as follows during the reporting year:

in € million	2006	2005
Cost/carrying amount at beginning of year	**13.9**	**17.4**
Change in consolidated companies	0.1	4.4
Reclassifications of discontinued operations	0.0	-7.9
Cost/carrying amount at year-end	**14.0**	**13.9**

The goodwill recognised as of 31 December 2006 is comprised primarily of € 12.7 million for production facilities in Mexico and approximately € 1.0 million for plants belonging to the Didier-Werke AG Group (with the exception of Mexico). These amounts reflect the prior year levels.

The same procedure used to test for impairment in 2005 was employed during the reporting year, and was based on the value in use of the individual cash-generating units. The discounted cash flow method was applied, and incorporates the terminal value based on growth of 1.5 percent (2005: 1.5 percent) and an interest rate of 7.55 percent (2005: 6.39 percent).

(3) Other intangible assets

Other intangible assets changed as follows:

in € million	Internally generated intangible assets	Other intangible assets	Total
Cost at 31.12.2005	6.3	33.6	39.9
Currency translation	0.0	-0.7	-0.7
Additions	3.4	1.4	4.8
Reclassifications	1.8	-0.1	1.7
Cost at 31.12.2006	**11.5**	**34.2**	**45.7**
Accumulated amortisation at 31.12.2005	0.6	24.8	25.4
Currency translation	0.0	-0.3	-0.3
Amortisation charge	0.8	2.6	3.4
Impairment losses	0.3	0.0	0.3
Reclassifications	0.6	-0.6	0.0
Accumulated amortisation at 31.12.2006	**2.3**	**26.5**	**28.8**
Carrying amounts at 31.12.2006	**9.2**	**7.7**	**16.9**

in € million	Internally generated intangible assets	Other intangible assets	Total
Cost at 31.12.2004	1.7	38.3	40.0
Currency translation	0.0	1.1	1.1
Change in consolidated companies	0.0	9.8	9.8
Additions	4.6	3.3	7.9
Retirements and disposals	0.0	-3.1	-3.1
Reclassifications	0.0	1.7	1.7
Reclassification of discontinued operations	0.0	-17.5	-17.5
Cost at 31.12.2005	**6.3**	**33.6**	**39.9**
Accumulated amortisation at 31.12.2004	0.3	30.0	30.3
Currency translation	0.0	0.5	0.5
Amortisation charge	0.3	2.8	3.1
Retirements and disposals	0.0	-3.1	-3.1
Reclassifications	0.0	0.2	0.2
Reclassification of discontinued operations	0.0	-5.6	-5.6
Accumulated amortisation at 31.12.2005	**0.6**	**24.8**	**25.4**
Carrying amounts at 31.12.2005	**5.7**	**8.8**	**14.5**

Internally generated intangible assets comprise capitalised software and product development costs.

Systematic amortisation as shown on the income statement is related to the cost of sales with € 1.4 million (2005: € 1.1 million), distribution costs with € 0.1 million (2005: € 0.2 million) and administrative expenses with € 1.9 million (2005: € 1.3 million). In the previous year, an additional € 0.5 million was recognised under administrative expenses of the discontinued operations. Impairment charges of € 0.3 million (2005: € 0.0 million) were included under distribution costs.

Expenses recognised for research and development in 2006 totalled € 16.3 million (2005: € 15.4 million).

(4) Shares in associates

The development of shares in associates is shown below:

in € million	2006	2005
Carrying amount at beginning of year	**13.9**	**39.1**
Currency translation	0.0	0.2
Change in consolidated companies	0.0	-17.7
Share in profit (after tax)	1.6	2.4
Dividends	-1.9	-3.1
Other changes in value (after taxes)	-0.3	0.0
Reclassifications	0.0	-5.4
Reclassification of discontinued operations	0.0	-1.6
Carrying amount at year-end	**13.3**	**13.9**

The goodwill included under shares in associates remained unchanged at € 5.1 million.

The shares owned by the Group in associates are shown in the following table; none of these companies is listed on a stock exchange:

in € million	Interest held %	Assets	Liabilities	Revenues	Profit/(loss)
2006					
Dolomite di Montignoso S.p.A., Genoa, Italy	28.56	0.2	0.2	0.1	0.0
MAGNIFIN Magnesiaprodukte GmbH & Co KG, St. Jakob, Austria	50.00	31.4	19.0	18.7	5.2
Shandong RHI New Materials Co., Ltd., Zibo City, PR China	50.00	6.2	2.4	0.0	-2.0
Società Dolomite Italiana SDI S.p.A., Gardone Val Trompia, Italy	50.00	0.5	0.1	0.5	0.0
Total		**38.3**	**21.7**	**19.3**	**3.2**

in € million	Interest held %	Assets	Liabilities	Revenues	Profit
2005					
Dolomite di Montignoso S.p.A., Genoa, Italy	28.56	0.1	0.2	0.0	0.0
MAGNIFIN Magnesiaprodukte GmbH & Co KG, St. Jakob, Austria	50.00	25.9	14.5	15.5	4.8
Shandong RHI New Materials Co., Ltd., Zibo City, PR China	50.00	6.4	0.1	0.0	0.0
Società Dolomite Italiana SDI S.p.A., Gardone Val Trompia, Italy	50.00	0.5	0.1	0.4	0.0
Total		**32.9**	**14.9**	**15.9**	**4.8**

(5) Financial assets

All financial assets are classified as available for sale, and developed as follows:

in € million	Shares in other companies	Securities	Total
Cost/fair value at 31.12.2005 and 31.12.2006	**7.7**	**37.0**	**44.7**
Accumulated impairment losses at 31.12.2005	1.8	0.9	2.7
Impairment losses	0.0	0.9	0.9
Accumulated impairment losses at 31.12.2006	**1.8**	**1.8**	**3.6**
Carrying amounts at 31.12.2006	**5.9**	**35.2**	**41.1**

	Available-for-sale			Prepayments	Total
in € million	shares in subsidiaries	shares in other companies	securities	on investments	
Cost/fair value at 31.12.2004	3.0	3.0	36.2	20.0	62.2
Change in consolidated companies	0.0	-0.5	0.0	-20.0	-20.5
Additions	0.0	0.1	3.2	0.0	3.3
Fair value changes recognised in equity	0.0	0.9	0.0	0.0	0.9
Reclassifications	0.0	5.4	0.0	0.0	5.4
Reclassification of discontinued operations	-3.0	-1.2	-2.4	0.0	-6.6
Cost/fair value at 31.12.2005	**0.0**	**7.7**	**37.0**	**0.0**	**44.7**
Accumulated impairment losses at 31.12.2004	2.9	1.8	2.5	0.0	7.2
Impairment losses	0.0	0.0	0.2	0.0	0.2
Reversal of impairment losses	0.0	0.0	-1.5	0.0	-1.5
Reclassification of discontinued operations	-2.9	0.0	-0.3	0.0	-3.2
Accumulated impairment losses at 31.12.2005	**0.0**	**1.8**	**0.9**	**0.0**	**2.7**
Carrying amounts at 31.12.2005	**0.0**	**5.9**	**36.1**	**0.0**	**42.0**

(6) Non-current receivables and current portion of non-current receivables

As of the balance sheet date, receivables with a total nominal value of € 1.9 million (31.12.2005: € 2.3 million) were assigned.

Non-current receivables that are due within 12 months of the balance sheet date are included under current receivables.

(7) Deferred taxes

Net deferred taxes on balance sheet items are as follows:

in € million	31.12.2006	31.12.2005 [1]
Deferred tax assets	68.8	70.3
Deferred tax liabilities	-10.2	-11.8
Net position	**58.6**	**58.5**

1) The comparable prior year period was adjusted to reflect the application of the addition to IAS 19.

The following table shows the development of the Group's net position during the current financial year and prior year:

in € million	2006	2005 [1]
Net position at beginning of year	**58.5**	**36.9**
Currency translation	-0.7	0.5
Change in consolidated companies	0.0	-1.8
Change to income statement during financial year	-2.2	9.6
Recording without recognition through profit or loss during financial year	2.7	12.9
Effect of changes in tax rates	0.3	0.0
Reclassification of discontinued operations	0.0	0.4
Net position at year-end	**58.6**	**58.5**

1) The comparable prior year period was adjusted to reflect the application of the addition to IAS 19.

The change in deferred taxes, excluding the offset of deferred tax assets and deferred tax liabilities due from/to the same fiscal authority, is shown below with a classification according to the type of temporary difference and loss carryforward:

Deferred tax assets

in € million	Personnel provisions	Other provisions	Tax loss carryforwards	Other	Total
31.12.2005	**44.0**	**9.1**	**40.0**	**2.0**	**95.1**
Currency translation	0.0	-0.1	-0.3	-0.1	-0.5
Change to income statement during financial year	-0.1	1.0	-5.6	0.0	-4.7
Recording without recognition through profit or loss during financial year	2.7	0.0	0.0	0.0	2.7
Effect of changes in tax rates	-0.2	0.0	0.0	0.0	-0.2
31.12.2006	**46.4**	**10.0**	**34.1**	**1.9**	**92.4**

in € million	Personnel provisions[1]	Other provisions	Tax loss carryforwards	Other	Total
31.12.2004	**33.4**	**8.6**	**38.6**	**2.4**	**83.0**
Currency translation	0.2	0.0	0.1	0.3	0.6
Change in consolidated companies	0.1	-0.1	0.0	0.0	0.0
Change to income statement during financial year	-1.0	0.6	4.9	-0.7	3.8
Recording without recognition through profit or loss during financial year	12.9	0.0	0.0	0.0	12.9
Reclassification of discontinued operations	-1.6	0.0	-3.6	0.0	-5.2
31.12.2005	**44.0**	**9.1**	**40.0**	**2.0**	**95.1**

1) The comparable prior year period was adjusted to reflect the application of the addition to IAS 19.

Deferred tax liabilities

in € million	Accelerated tax depreciation	Other	Total
31.12.2005	**33.9**	**2.7**	**36.6**
Currency translation	-0.1	0.3	0.2
Change to income statement during financial year	0.1	-2.6	-2.5
Effect of changes in tax rates	-0.5	0.0	-0.5
31.12.2006	**33.4**	**0.4**	**33.8**

in € million	Accelerated tax depreciation	Other	Total
31.12.2004	**37.5**	**8.6**	**46.1**
Currency translation	0.2	-0.1	0.1
Change in consolidated companies	1.9	-0.1	1.8
Change to income statement during financial year	0.2	-6.0	-5.8
Reclassification of discontinued operations	-5.9	0.3	-5.6
31.12.2005	**33.9**	**2.7**	**36.6**

Tax loss carryforwards in the RHI Group totalled € 747.1 million as of 31 December 2006 (31.12.2005: € 840.0 million). Deferred taxes were not recorded on € 613.5 million (31.12.2005: € 647.0 million) of this amount. The main portion of the unrecognised tax losses can be carried forward indefinitely. Of the tax losses whose use is limited in time, € 5.8 million expire in 2014, € 5.6 million in 2015, and € 1.6 million in 2026.

Deferred taxes were not recognised on temporary differences of € 0.0 million (31.12.2005: € 0.1 million).

Taxable temporary differences of € 7.8 million (31.12.2005: € 38.0 million) and deductible temporary differences of € 81.5 million (31.12.2005: € 42.2 million) were not recognised on shares in subsidiaries because corresponding distributions of profit or the sale of the investments are not expected in the foreseeable future.

The temporary differences related to associates are immaterial.

The current portion of the net deferred tax position equals approximately € 5.0 million (31.12.2005: € 4.6 million).

Current assets
(8) Inventories
Inventories as shown on the balance sheet comprise the following:

in € million	31.12.2006	31.12.2005
Raw materials and supplies	79.0	70.9
Unfinished products	40.7	40.7
Finished products and goods	126.2	118.1
Prepayments made	5.7	7.6
Inventories	**251.6**	**237.3**

The carrying amount of inventories at fair value less costs to sell equalled € 10.1 million as of 31 December 2006 (31.12.2005: € 11.3 million).

Impairment charges of € 1.2 million were recognised in inventories during the reporting year (2005: € 5.2 million), and were contrasted by reversals of € 0.9 million (2005: € 0.1 million).

All finished products stored in the warehouses of Veitsch-Radex GmbH & Co, Vienna, as of 31 December 2005 or in the future were subject to restrictions on disposal because they were assigned as collateral. These restrictions covered € 6.6 million of inventories as of the balance sheet date on 31 December 2005. The assignments as collateral were cancelled as of 31 December 2006.

(9) Trade and other current receivables
Trade and other current receivables as shown on the balance sheet are classified as follows:

in € million	31.12.2006	31.12.2005
Trade receivables	273.1	241.2
Receivables from construction contracts	5.7	6.7
Receivables from associates	1.3	1.9
Receivables from discontinued operations	0.0	118.4
Other current receivables	38.9	53.5
Trade and other receivables	**319.0**	**421.7**

Other current receivables comprise the following:

in € million	31.12.2006	31.12.2005
Other taxes	25.8	39.5
Receivables employees	0.9	0.8
Prepaid expenses	1.0	1.0
Miscellaneous	11.2	12.2
Other current receivables	**38.9**	**53.5**

Distribution costs contain € 1.7 million (2005: € 2.4 million) of expenses for uncollectible receivables, including valuation adjustments, as well as income of € 0.6 million (2005: € 1.6 million) from the reversal of valuation adjustments.

Receivables with a nominal value of € 173.0 million (31.12.2005: € 140.2 million) were assigned.

(10) Cash and cash equivalents

This balance sheet item is classified as follows:

in € million	31.12.2006	31.12.2005
Cash on hand	0.1	0.1
Cheques	0.5	1.0
Cash at banks	66.1	20.1
Cash and cash equivalents	**66.7**	**21.2**

Foreign exchange regulations in various countries restrict the use of cash and cash equivalents totalling € 2.1 million (31.12.2005: € 0.3 million).

(11) Discontinued operations

Assets attributable to discontinued operations as of 31 December 2005 comprised the following:

in € million	31.12.2005
Non-current assets (excluding deferred taxes)	170.9
Deferred tax assets	1.7
Inventories	25.1
Other current assets (excluding cash and cash equivalents)	39.7
Cash and cash equivalents	18.3
Assets classified as held for sale	**255.7**

As of 31 December 2005 liabilities attributable to discontinued operations comprised the following:

in € million	31.12.2005
Liabilities to financial institutions and other financial liabilities	134.6
Deferred tax liabilities	5.7
Personnel provisions	25.1
Other provisions	3.0
Other liabilities	53.5
Liabilities classified as held for sale	**221.9**

Profit generated by discontinued operations is classified as follows:

in € million	1.1. -31.5.2006	1.1. -31.12.2005
Revenues	106.2	255.4
Special direct distribution costs	-9.9	-23.0
Cost of sales	-71.6	-166.5
Gross profit	**24.7**	**65.9**
Distribution costs	-9.2	-22.3
Administrative expenses	-8.3	-18.9
Other income	0.4	5.5
Other expenses	-0.3	-4.0
Operating results	**7.3**	**26.2**
Financial results	-2.1	-5.1
Results from associates	0.0	-0.2
Profit before income taxes	**5.2**	**20.9**
Income taxes	-1.9	-6.4
Profit for the year on discontinued operations	**3.3**	**14.5**
Gain on the disposal of discontinued operations	57.5	0.0
Profit for the year from discontinued operations	**60.8**	**14.5**

Systematic depreciation on non-current assets in the Insulating Division ceased with the classification of these items as discontinued operations, i.e. on 1 October 2005.

The valuation of discontinued operations did not result in an impairment loss according to IFRS 5 in 2006 or 2005.

The sale of the discontinued operations did not create a tax benefit or a tax liability.

Cash flow attributable to the discontinued insulating operations is classified as follows:

in € million	1.1. -31.5.2006	1.1. -31.12.2005
Cash flow from operating activities	0.5	24.8
Cash flow from investing activities	-1.4	-12.3
Cash flow from financing activities	4.8	-5.4
Cash flow from discontinued operations	**3.9**	**7.1**

Equity and Liabilities

(12) Equity

The individual components of equity and their development during 2006 and 2005 are shown in the following tables:

in € million	Share capital	Group reserves	**Equity attributable to equity holders of RHI AG**	**Minority interest**	**Total equity**
31.12.2005 adjusted	189.5	-423.4	**-233.9**	**21.4**	**-212.5**
Income and expenses recognised directly in equity		-31.8	**-31.8**	**-0.6**	**-32.4**
Profit		155.0	**155.0**	**2.9**	**157.9**
Total recognised income and expenses	0.0	123.2	**123.2**	**2.3**	**125.5**
Dividend payments			**0.0**	**-1.2**	**-1.2**
Capital increase	22.6		**22.6**		**22.6**
Effects of convertible bonds		-0.9	**-0.9**		**-0.9**
Change in minority interest		3.9	**3.9**	**-1.9**	**2.0**
31.12.2006	212.1	-297.2	**-85.1**	**20.6**	**-64.5**

in € million	Share capital	Group reserves	**Equity attributable to equity holders of RHI AG**	**Minority interest**	**Total equity**
31.12.2004	159.8	-506.5	**-346.7**	**36.2**	**-310.5**
Change in accounting policy IAS 19 (after tax)		0.2	**0.2**	**-0.2**	**0.0**
31.12.2004 adjusted	159.8	-506.3	**-346.5**	**36.0**	**-310.5**
Income and expenses recognised directly in equity		-12.1	**-12.1**	**-15.3**	**-27.4**
Profit		95.6	**95.6**	**1.7**	**97.3**
Total recognised income and expenses	0.0	83.5	**83.5**	**-13.6**	**69.9**
Dividend payments			**0.0**	**-1.0**	**-1.0**
Capital increase	29.7		**29.7**		**29.7**
Effects of convertible bonds		-0.6	**-0.6**		**-0.6**
31.12.2005 adjusted	189.5	-423.4	**-233.9**	**21.4**	**-212.5**

The share capital of RHI AG totalled € 212,074,126.88 as of 31 December 2006 (31.12.2005: € 189,531,024.32) and is comprised of 29,182,039 (31.12.2005: 26,080,039) no-par bearer shares.

The company held no treasury stock as of the balance sheet date.

The RHI share is included in the ATX index, and is traded in the Prime Market segment of the Vienna Stock Exchange.

The extraordinary general meeting on 15 February 2002 authorised the Management Board of RHI AG to carry out a conditional capital increase of up to € 72,305,836.31 (conditional capital) through the issue of up to 9,949,500 no-par bearer shares with voting rights at an issue price of € 7.27 per share.

The extraordinary general meeting on 15 February 2002 also authorised the Management Board to increase share capital in one or more tranches, with the consent of the Supervisory Board but without further approval by the Annual General Meeting and excluding the subscription rights of shareholders. This authorisation covers a total increase of up to € 72,305,836.31 (authorised capital) through the issue of 9,949,500 no-par bearer shares with voting rights at an issue price of € 7.27 per share. The authorisation is valid for a period of five years, beginning on the date the relevant amendment to the articles of association is registered.

A resolution passed by the Annual General Meeting on 19 May 2005 extended the term of this authorised capital to cover the issue of up to 6,897,000 no-par bearer shares with voting rights for a total capital increase of up to € 50,122,453.68 on or before 30 April 2010.

The capital increase will be executed as a contribution in kind, i.e. in exchange for the claims of convertible bond holders.

Based on the authorisation to increase share capital that was granted on 15 February 2002, the following numbers of individual convertible bond certificates from tranche B were converted at a price of € 7.27 each with the approval of the Management Board and consent of the Supervisory Board.

Management Board Resolution on	Consent of Supervisory Board on	Number of convertible bonds	Number of shares
15 March 2006	21 March 2006	95	522.500
13 June 2006	20 June 2006	58	319.000
13 September 2006	19 September 2006	29	159.500
11 December 2006	18 December 2006	382	2.101.000
		564	**3.102.000**

Unused authorised capital:

	Number of shares	€
31.12.2005	**3,789,500**	**27,539,381.08**
Conversion in March	-522,500	-3,797,153.80
Conversion in June	-319,000	-2,318,262.32
Conversion in September	-159,500	-1,159,131.16
Conversion in December	-2,101,000	-15,268,555.28
31.12.2006	**687,500**	**4,996,278.52**

	Number of shares	€
31.12.2004	**7,887,000**	**57,317,064.26**
Conversion in March	-990,000	-7,194,610.58
Conversion in June	-60,500	-439,670.44
Conversion in September	-2,904,000	-21,104,181.12
Conversion in December	-143,000	-1,039,221.04
31.12.2005	**3,789,500**	**27,539,381.08**

The development of the Group's reserves is shown in the following table:

in € million	Additional paid-in capital	Fair value reserves	Remeasurement reserve	Currency translation reserves	Accumulated results	Total
31.12.2005 adjusted	**38.1**	**4.6**	**5.5**	**-21.4**	**-450.2**	**-423.4**
Transfer of remeasurement reserve (after tax)			-5.5		5.5	0.0
Change in actuarial losses arising from defined benefit pension plans and termination benefits					-11.6	-11.6
Currency translation adjustments				-23.6	0.8	-22.8
Changes in the value of shares in associates					-0.2	-0.2
Other changes		-0.2			0.3	0.1
Deferred taxes on changes in value recognised directly in equity					2.7	2.7
Income and expenses recognised directly in equity	**0.0**	**-0.2**	**-5.5**	**-23.6**	**-2.5**	**-31.8**
Profit					**155.0**	**155.0**
Total recognised income and expenses	**0.0**	**-0.2**	**-5.5**	**-23.6**	**152.5**	**123.2**
Effects of convertible bonds					-0.9	-0.9
Change in minority interest					3.9	3.9
31.12.2006	**38.1**	**4.4**	**0.0**	**-45.0**	**-294.7**	**-297.2**

in € million	Additional paid-in capital	Fair value reserves	Remeasurement reserve	Currency translation reserves	Accumulated results	Total
31.12.2004	**37.3**	**3.7**	**0.0**	**-46.1**	**-501.4**	**-506.5**
Change in accounting policy IAS 19 (after tax)					0.2	0.2
Change in accounting policy IAS 21				-2.0	2.0	0.0
31.12.2004 adjusted	**37.3**	**3.7**	**0.0**	**-48.1**	**-499.2**	**-506.3**
Changes in fair value not recognised through profit or loss		0.9				0.9
Increase in the carrying amount of assets due to revaluation (IFRS 3)			7.4			7.4
Change in actuarial losses arising from defined benefit pension plans and termination benefits					-43.9	-43.9
Currency translation adjustments				26.5		26.5
Changes in the value of shares in associates				0.2		0.2
Other changes					-14.0	-14.0
Deferred taxes on changes in value recognised directly in equity			-1.9		12.7	10.8
Income and expenses recognised directly in equity	**0.0**	**0.9**	**5.5**	**26.7**	**-45.2**	**-12.1**
Profit					**95.6**	**95.6**
Total recognised income and expenses	**0.0**	**0.9**	**5.5**	**26.7**	**50.4**	**83.5**
Effects of convertible bonds	0.8				-1.4	-0.6
31.12.2005 adjusted	**38.1**	**4.6**	**5.5**	**-21.4**	**-450.2**	**-423.4**

Additional paid-in capital comprises premiums on the issue of shares and the convertible bond by RHI AG. The distribution of these funds is prohibited by law. The reserve for the convertible bonds totalled € 11.3 million as of 31 December 2006 (31.12.2005: € 11.3 million).

The changes in the fair value of available-for-sale securities and investments in subsidiaries and other companies are included under the fair value reserves.

Equity effects from the remeasurement of assets acquired through business combinations in accordance with IFRS 3 were taken into account for the first time during the financial year 2005. In cases where a company is acquired in stages, a complete remeasurement of the company is required when control is obtained. All assets and liabilities of the company must be measured at fair value. The carrying value of the assets already owned by the acquiring company must also be remeasured and subsequently adjusted if the newly determined fair value is higher than the recognised carrying value. Any remeasurement adjustments are recorded directly to a separate position under equity (remeasurement reserve) without recognition through profit or loss. The remeasurement reserve of € 5.5 million that is shown under equity resulted exclusively from the purchase of further shares in Termo d.d., Skofja Loka, Slovenia. During the financial year 2006, the remeasurement reserve was transferred to accumulated results in connection with the deconsolidation of the Insulating Division.

The accumulated foreign currency translation differences from investments in foreign group companies are shown in the currency translation reserve.

The position accumulated results includes results that were recognised by consolidated companies during prior periods, but not distributed. This item also contains goodwill arising from the elimination of the investment and equity in subsidiaries and associates, which arose before 1 January 2002 and was recognised in full under equity for the financial statements prepared in accordance with the Austrian Commercial Code. As a consequence of the application of IFRS 3, these unrecognised settlement items are not reversed to profit or loss when the relevant company is deconsolidated. The position accumulated results also includes actuarial gains and losses arising from defined benefit pension plans and termination benefits.

For the discontinued Insulating Division, effects from the foreign currency translation of subsidiaries and changes in the fair value of available-for-sale securities totalling € 0.8 million (31.12.2005: € 0.4 million) were recorded directly in equity up to the deconsolidation on 1 June 2006.

Distributable profit and dividends are generally related to the accumulated profit of RHI AG, which was calculated in accordance with Austrian commercial law.

The minority interest is related primarily to the Didier-Werke AG Group, Wiesbaden, Germany, Dolomite Franchi S.p.A., Brescia, Italy, RHI Refractories Liaoning Co., Ltd., Bayuquan, People's Republic of China, RHI Clasil Limited, Hyderabad, India, and Liaoning RHI Jinding Magnesia Co., Ltd., Dashiqiao City, People's Republic of China. In the prior year, this item also included the minority interest in Termo d.d., Skofja Loka, Slovenia, and its subsidiaries, which are part of the discontinued Insulating Division.

(13) Subordinated liabilities to financial institutions

The subordinated liabilities of € 400.0 million that were shown on the balance sheet for the prior year were subordinated from 31 December 2001 to the end of 2006. During this period, the financial institutions had no claim to interest or principal payments.

The fair value of subordinated liabilities due to financial institutions was € 21.0 million less than the carrying amount as of 31 December 2005. An interest rate of 5.53 percent was used to calculate fair value.

The subordinated status was terminated as of 31 December 2006. These liabilities are now included under interest-bearing liabilities due to financial institutions.

(14) Subordinated convertible bond

The conditional capital increase will be used for tranche A of the subordinated convertible bond, which has a total nominal value of € 72,360,000 and is divided into 1,809 individual convertible bond certificates with a nominal value of € 40,000 each. The term of the convertible bond extends to 31 December 2009, and conversion is possible for the first time on 1 January 2007 at a ratio of 1 : 5,500 shares in RHI AG. The convertible bond carries an interest rate of 6 percent p.a., which is dependent on profit. The entire tranche A was purchased by banks.

Authorised capital is used to service tranche B of the subordinated convertible bond. Tranche B has a total nominal value of € 72,360,000 and is divided into 1,809 individual convertible bond certificates with a nominal value of € 40,000 each. The term of tranche B extends to 31 December 2009, and conversion is possible during the period from 1 January 2003 to 31 December 2009 at a ratio of 1 : 5,500 shares in RHI AG. Tranche B also carries an interest rate of 6 percent p.a., which is dependent on profit. It was offered for subscription from 8 to 30 April 2002.

Parts of tranche B were privately placed as tranche C during August 2002 at the same conditions applicable to the remainder of the convertible bond. As of 31 December 2002, 1,064 individual convertible bond certificates from tranche B and 537 individual convertible bond certificates from tranche C had been purchased. On 30 June 2003 tranches B and C were combined.

As of 31 December 2006, 1,809 individual convertible bond certificates (31.12.2005: 1,809 individual convertible bond certificates) from tranche A and 125 individual convertible bond certificates (31.12.2005: 689 individual convertible bond certificates) from tranche B had been issued. As of the balance sheet date, a total of 1,934 (31.12.2005: 2,498) individual convertible bond certificates had been issued.

The following table shows the development of the bond:

in € million	Units	Nominal	Discount	Total
31.12.2005	**2,498**	**100.0**	**-3.5**	**96.5**
Conversion	-564	-22.6	0.0	-22.6
Interest				
- through income statement			0.7	0.7
- through equity			0.9	0.9
31.12.2006	**1,934**	**77.4**	**-1.9**	**75.5**

in € million	Units	Nominal	Discount	Total
31.12.2004	**3,173**	**127.0**	**-6.1**	**120.9**
Conversion	-745	-29.8	0.0	-29.8
Issue	70	2.8	0.3	3.1
Interest				
- through income statement			0.9	0.9
- through equity			1.4	1.4
31.12.2005	**2,498**	**100.0**	**-3.5**	**96.5**

The following interest expense for the convertible bond was accrued under other current liabilities as of the balance sheet date:

in € million	2006	2005
Balance at beginning of year	**5.9**	**7.7**
Interest expense	5.6	6.0
Interest paid	-6.1	-7.8
Balance at year-end	**5.4**	**5.9**

(15) Financial liabilities

Financial liabilities include all non-current and current interest-bearing obligations of the RHI Group as of the balance sheet date.

	31.12.2006		31.12.2005	
in € million	Carrying amount	Fair value	Carrying amount	Fair value
Liabilities to financial institutions	390.7	373.5	193.2	191.2
Other loans	5.4	5.4	4.7	4.7
Other non-current financial liabilities	**396.1**	**378.9**	**197.9**	**195.9**
Liabilities to financial institutions	89.4	89.4	58.7	58.7
Liabilities from finance leases	0.0	0.0	0.1	0.1
Other loans	0.9	0.9	0.9	0.9
Current financial liabilities	**90.3**	**90.3**	**59.7**	**59.7**
Financial liabilities	**486.4**	**469.2**	**257.6**	**255.6**

Non-current liabilities to financial institutions with a remaining term of more than five years total € 114.9 million (31.12.2005: € 0.7 million).

The interest commitments and conditions of non-current and current liabilities to financial institutions are shown below:

in € million

31.12.2006				**31.12.2005**			
Interest terms fixed until [1]	Weighted average interest rate	Currency	Financial liabilities [2]	Interest terms fixed until [1]	Weighted average interest rate	Currency	Financial liabilities [2]
2007	Variable interest			2006	EURIBOR + 50 BP [3]	EUR	197.4
	rate + margin	EUR	79.6		EURIBOR + margin	EUR	20.8
	EURIBOR + margin	EUR	89.9		LIBOR + 50 BP	USD	18.0
	Interbank rate +				Interbank rate +		
	margin	INR	0.1		margin	CLP	0.2
	3.50% + margin	EUR	0.6	2007	3.90%	EUR	1.9
2008	5.30%	EUR	0.3		4.00%	EUR	0.7
	2.95% + margin	EUR	3.4	2008	5.30%	EUR	0.5
2009	4.25%	EUR	0.2	2009	3.47%	EUR	4.8
	1.37% + margin	EUR	4.0		4.25%	EUR	0.2
2010	1.90% + margin	EUR	33.8	2010	1.74%	EUR	4.0
	1.23% + margin	EUR	3.5	2011	1.17%	EUR	3.4
2011	1.27% + margin	EUR	4.0				
2012	2.54% + margin	EUR	260.7				
			480.1				**251.9**

1) In some cases, the terms to maturity of the contracts are substantially longer than the period during which interest terms are fixed.

2) Financial liabilities not including finance leases and other loands

3) BP = Basis points

Liabilities to financial institutions also include export financing (including financing for the acquisition of companies) of € 374.1 million (31.12.2005: € 109.3 million).

Of the total financial liabilities, € 400.2 million (31.12.2005: € 222.9 million) are secured by liens on real estate and other collateral.

Other pledged collateral comprises:

The pledge of all shares and investments in Didier-Werke AG, Wiesbaden, Germany; Veitsch-Radex GmbH, Vienna; Veitsch-Radex GmbH & Co, Vienna; Veitsch-Radex Vertriebsgesellschaft mbH, Vienna; Radex Vertriebsgesellschaft mbH, Leoben; RHI Refractories Raw Material GmbH (formerly: Veitsch-Radex Immobilien GmbH), Vienna; VRD Americas B.V., Arnhem, Netherlands; Refrattari Italiana S.p.A., Genoa, Italy; Lokalbahn Mixnitz-St. Erhard AG, Vienna; Latino America Refratories ApS, Copenhagen, Denmark, and RHI Finance A/S, Hellerup, Denmark; the pledge of all brand and patent rights belonging to Veitsch-Radex GmbH & Co, Vienna, and RHI AG, Vienna; as well as the assignment of receivables.

As of 31 December 2006, credit lines totalling € 617.7 million (31.12.2005: € 367.8 million) were available to the RHI Group.

(16) Personnel provisions

Personnel provisions include the following non-current provisions:

in € million	31.12.2006	31.12.2005 [1]
Pensions	259.9	259.5
Termination benefits	48.9	46.8
Other personnel provisions	22.7	20.4
Personnel provisions	**331.5**	**326.7**

1) The comparable prior year period was adjusted to reflect the application of the addition to IAS 19.

Provisions for pensions

The amount of the pension obligations is calculated in accordance with actuarial methods and is based on the following assumptions, which are in part dependent on the economic situation in the individual countries:

	31.12.2006	31.12.2005
Interest rate	4.25% - 8.0%	4.0% - 8.8%
Expected yield on plan assets	3.0% - 8.0%	3.0% - 9.0%
Wage/salary increase	2.0% - 3.9%	2.0% - 5.5%
Pension increase	2.0% - 4.0%	2.0% - 5.5%
Discounts for employee turnover	5.0%	5.0%
Retirement age	54 – 65 years	54 – 65 years
Mortality tables		
- Austria	AVÖ-P 1999, Ang	AVÖ-P 1999, Ang
- Germany	Heubeck 2005 G	Heubeck 2005 G
- United Kingdom	PA92(base)-3/-1	PA92(base)-3/-1

The expected long-term income from invested assets is calculated separately for each category of assets based on publicly available and internal capital market studies and forecasts.

The recognised provisions for pensions were derived from the scope of the pension obligations and the fair value of external plan assets, and are shown below:

in € million	31.12.2006	31.12.2005 [1]
Present value of unfunded pension obligations	236.2	240.1
Present value of wholly or partly funded pension obligations	87.0	77.2
Fair value of plan assets	-63.3	-57.8
Provisions for pensions	**259.9**	**259.5**

1) The comparable prior year period was adjusted to reflect the application of the addition to IAS 19.

The present value of the pension obligations is comprised of the following:

in € million	2006	2005
Present value of pension obligations at beginning of year	**317.3**	**291.4**
Currency translation	-0.5	2.2
Change in consolidated companies	0.0	0.8
Current service cost	2.5	2.5
Past service cost	2.2	0.0
Interest cost	14.0	14.2
Actuarial losses	8.9	42.7
Direct pension payments	-23.4	-22.6
Reclassifications	2.2	0.3
Reclassification of discontinued operations	0.0	-14.2
Present value of pension obligations at year-end	**323.2**	**317.3**

The development of plan assets is shown in the following table:

in € million	2006	2005
Fair value of plan assets at beginning of year	**57.8**	**51.9**
Currency translation	-0.1	1.7
Change in consolidated companies	0.0	0.1
Expected return on plan assets	2.2	1.1
Actuarial (losses)/gains	-0.9	2.2
Direct pension payments	-5.5	-2.6
Contributions to/from external funds	9.5	4.0
Reclassifications	0.3	0.3
Reclassification of discontinued operations	0.0	-0.9
Fair value of plan assets at year-end	**63.3**	**57.8**

As of the balance sheet date, the plan assets were comprised of 53 percent (31.12.2005: 47 percent) insurance and 47 percent (31.12.2005: 53 percent) of fixed-interest securities.

The actual income from external fund assets equalled € 1.3 million for the financial year 2006 (2005: € 3.3 million).

The following table shows the development of the recognised net liabilities for the reporting year and prior year:

in € million	2006	2005 [1]
Provisions for pensions at beginning of year	**259.5**	**238.6**
Currency translation	-0.4	0.6
Change in consolidated companies	0.0	0.7
Pension cost	16.5	15.6
Actuarial losses	9.8	40.5
Direct pension payments	-17.9	-20.0
Contributions to/from external funds	-9.5	-4.0
Reclassifications	1.9	0.0
Reclassification of discontinued operations	0.0	-12.5
Provisions for pensions at year-end	**259.9**	**259.5**

1) The comparable prior year period was adjusted to reflect the application of the addition to IAS 19.

Payments into the plan are expected to total € 22.1 million for the financial year 2007. These payments include the planned contributions to external plan assets as well as pension payments, which are not covered by appropriate reimbursements from plan assets.

The following amounts were recognised on the income statement:

in € million	2006	2005 [1]
Current service cost	2.5	2.4
Past service cost	2.2	0.0
Interest cost	14.0	13.6
Expected return on plan assets	-2.2	-1.1
Pension cost	**16.5**	**14.9**

1) The comparable prior year period was adjusted to reflect the application of the addition to IAS 19.

With the exception of the interest portion of the addition to the provision, which is included under financial results, the individual components of pension expense are included under personnel expenses.

The present value of the pension obligations, plan assets, financing status and actuarial gains and losses recognised directly in equity developed as follows:

in € million	31.12.2006	31.12.2005	31.12.2004	31.12.2003	31.12.2002
Present value of pension obligations	323.2	317.3	291.4	292.8	297.8
Fair value of plan assets	-63.3	-57.8	-51.9	-48.2	-44.7
Deficit	**259.9**	**259.5**	**239.5**	**244.6**	**253.1**

in € million	2006	2005
Actuarial losses/(gains) at beginning of year	**38.2**	**-2.3**
Losses of the year	9.8	40.5
Actuarial losses at year-end	**48.0**	**38.2**

Based on the present value of pension obligations and plan assets, the adjustments made to reflect experience are:

in %	2006	2005
Losses as a percent of the present value of the obligation at year-end	1.7	2.4
Losses/(gains) as a percent of plan assets at year-end	1.4	-3.8

Provisions for termination benefits

The carrying values of the provisions for termination benefits are calculated using the same methods as the provisions for pensions. These calculations are based on actuarial assumptions, which in part differ by country:

	31.12.2006	31.12.2005
Interest rate	4.25% - 8.5%	4.25% - 8.6%
Wage/salary increase	3.0% - 6.0%	3.5% - 7.4%
Discounts for employee turnover	0.0% - 5.0%	0.1% - 14.6%
Retirement age	54 – 65 years	54 – 65 years
Mortality tables / Austria	AVÖ-P 1999, Ang	AVÖ-P 1999, Ang

The changes in the present value of termination benefit obligations result from the following:

in € million	2006	2005
Present value of termination benefit obligations at beginning of year	**46.8**	**51.8**
Currency translation	-0.2	0.3
Change in consolidated companies	0.0	0.4
Current service cost	2.5	2.3
Interest cost	2.1	2.5
Actuarial losses	1.8	3.9
Termination benefit payments	-4.1	-4.5
Reclassification of discontinued operations	0.0	-9.9
Present value of termination benefit obligations at year-end	**48.9**	**46.8**

The development of the recognised liability from the prior year carrying values is as follows for 2006 and 2005:

in € million	2006	2005 [1]
Provisions for termination benefits at beginning of year	**46.8**	**51.9**
Currency translation	-0.2	0.3
Change in consolidated companies	0.0	0.4
Termination benefit cost	4.6	4.8
Actuarial losses	1.8	3.9
Termination benefit payments	-4.1	-4.5
Reclassification of discontinued operations	0.0	-10.0
Provisions for termination benefits at year-end	**48.9**	**46.8**

1) The comparable prior year period was adjusted to reflect the application of the addition to IAS 19.

Payments for termination benefits are expected to total € 2.6 million in 2007.

The termination benefit expense included on the income statements for 2006 and 2005 is comprised of the items listed below. With the exception of the interest portion, which is included under financial results, the individual components of cost are reported under personnel expenses:

in € million	2006	2005 [1]
Current service cost	2.5	2.1
Interest cost	2.1	2.2
Termination benefit cost	**4.6**	**4.3**

1) The comparable prior year period was adjusted to reflect the application of the addition to IAS 19.

The following table shows the present value of termination benefit obligations for the last five years:

in € million	31.12.2006	31.12.2005	31.12.2004	31.12.2003	31.12.2002
Present value of termination benefit obligations	48.9	46.8	51.8	47.2	46.8

The following actuarial losses are included in the statement of recognised income and expenses for the reporting year and prior year:

in € million	2006	2005
Actuarial losses at beginning of year	**6.9**	**3.0**
Losses of the year		
- Subsidiaries	1.8	3.9
- Associates	0.2	0.0
Actuarial losses at year-end	**8.9**	**6.9**

Based on the present value of obligations as of the balance sheet date, actuarial losses of 5.1 percent were recognised in 2006 (31.12.2005: -0.4 percent) to reflect experience.

Other personnel provisions

This position developed as follows during the reporting year:

in € million	Service anniversary bonuses	Lump-sum settlements	Payments to semi-retirees	Total
31.12.2005	**16.4**	**0.4**	**3.6**	**20.4**
Use	-0.1	-0.4	-1.7	-2.2
Addition	2.7	0.1	1.7	4.5
31.12.2006	**19.0**	**0.1**	**3.6**	**22.7**

(17) Other provisions

The non-current provisions included on the balance sheet represent accruals for the demolition and disposal of buildings and plant that are outdated or no longer required, and are based on legal requirements. These obligations are carried at the unchanged expected cost of approximately € 2.5 million, because the interest effect that would result from discounting is considered immaterial.

The development of current provisions is shown below:

in € million	Demolition and disposal costs, environmental damages	Warranties	Guarantees provided	Claims for compensation	Legal disputes	Total
31.12.2005	**6.5**	**17.1**	**22.7**	**26.1**	**0.1**	**72.5**
Currency translation	0.0	-0.3	0.0	0.0	0.0	-0.3
Use	-0.2	-4.8	0.0	-0.1	0.0	-5.1
Reversal	0.0	-0.1	-2.3	-2.2	0.0	-4.6
Addition	0.3	11.8	0.0	0.1	0.2	12.4
31.12.2006	**6.6**	**23.7**	**20.4**	**23.9**	**0.3**	**74.9**

Demolition and disposal costs, environmental damages

The current provisions for demolition and disposal costs as included on the balance sheet total roughly € 5.0 million (31.12.2005: € 3.4 million). Based on contractual or legal obligations, the RHI Group also expects claims of € 1.6 million (31.12.2005: € 3.1 million) for environmental damages.

Warranties

The provisions for warranties include accruals for claims arising from warranties and other similar obligations.

Guarantees provided

This item covers obligations arising from sureties and guarantees provided to banks and insurance companies in Austria and other countries.

Claims for compensation

This position is comprised of provisions for possible claims arising from contractual or constructive obligations to provide compensation for damages and similar payments.

Legal disputes

Provisions were created for expected costs related to ongoing or probable legal disputes as well as court or arbitration proceedings. The amounts of the provisions were determined on the basis of information and cost estimates provided by the attorneys of the Group companies, and cover all estimated legal costs, fees and possible settlements.

(18) Trade and other current payables

Other non-current liabilities of € 4.5 million (31.12.2005: € 23.6 million) include subsidies of € 3.9 million (31.12.2005: € 3.5 million) granted by third parties, which are designed above all to support capital investments. The current portion of recognised subsidies equals € 0.5 million (31.12.2005: € 0.4 million), and is included under other current liabilities. The grantors of the subsidies were provided with proof of compliance with the required conditions, which include the investment of certain amounts or creation and maintenance of jobs.

As of 31 December 2005, other non-current liabilities also included a covered foreign exchange hedge of € 20.1 million. The current portion of this non-current liability totalled € 15.9 million, and was reported under other current liabilities. This foreign exchange transaction comprised three US-dollar-swaps, which were covered by forward contracts of the same amount in 2003. The liability was compounded, and interest was charged to the income statement. This liability was repaid during 2006.

The component items of trade and other current payables are shown below:

in € million	31.12.2006	31.12.2005
Trade payables	150.8	147.3
Prepayments received on orders	10.4	8.1
Accounts payable to associates	0.8	0.7
Accounts payable to discontinued operations	0.0	0.2
Other current payables	84.3	115.2
Trade and other payables	**246.3**	**271.5**

Other current payables comprise the following items:

in € million	31.12.2006	31.12.2005
Other taxes	11.8	22.9
Liabilities employees and board members	36.2	38.9
Deferred charges	0.2	0.2
Miscellaneous	36.1	53.2
Other current payables	**84.3**	**115.2**

(19) Contingent liabilities

The following contingent liabilities were recognised at nominal value. Provisions were not created for these items because the risk of occurrence is considered to be less than probable:

in € million	31.12.2006	31.12.2005
Liabilities from sureties	4.9	14.3
Liabilities from guarantees	15.5	19.0
Contingent liabilities	**20.4**	**33.3**

The contingent liabilities recognised as of 31 December 2006 do not include any obligations (31.12.2005: € 13.4 million) that were entered into by companies in the Refractories Division on behalf of the Insulating Division. Contingent liabilities of € 1.0 million (31.12.2005: € 0.0 million) are related to associates. No obligations were assumed for non-consolidated subsidiaries.

Contingent liabilities in the Insulating Division amounted to € 1.6 million as of 31 December 2005. Of this total, € 0.5 million were entered into on behalf of companies in the continuing operations.

(20) Other financial obligations

Other financial obligations consist of the following items:

	Total		Remaining term	
in € million	31.12.2006	up to 1 year	2 to 5 years	over 5 years
Obligations from rental and leasing contracts	26.9	7.5	19.4	0.0
Capital commitments	7.9	7.9	0.0	0.0
Miscellaneous financial obligations	21.4	3.8	15.1	2.5
Other financial obligations	**56.2**	**19.2**	**34.5**	**2.5**

	Total		Remaining term	
in € million	31.12.2005	up to 1 year	2 to 5 years	over 5 years
Obligations from rental and leasing contracts	26.6	7.2	18.0	1.4
Capital commitments	23.7	23.7	0.0	0.0
Miscellaneous financial obligations	11.1	5.4	5.7	0.0
Other financial obligations	**61.4**	**36.3**	**23.7**	**1.4**

Rental and leasing obligations are comprised primarily of obligations arising from rental contracts for offices and leases for office furnishings.

Miscellaneous financial obligations are related primarily to possible commission obligations arising from non-cancellable contracts as well as a commitment to acquire the minority interest in a subsidiary.

The RHI Group had no miscellaneous financial obligations to closely related companies as of the balance sheet date.

The Insulating Division had miscellaneous financial obligations of € 4.1 million as of 31 December 2005. Of this total, € 0.2 million were due to the Refractories Division.

Notes on Individual Items in the Income Statement

(21) Revenues

Revenues are classified as follows:

in € million	2006	2005
Revenues (not including construction contracts)	1,334.6	1,196.6
Revenues from construction contracts	1.2	2.8
Revenues	**1,335.8**	**1,199.4**

(22) Special direct distribution costs

The individual components of this item are shown in the following table:

in € million	2006	2005
Freights	73.2	66.3
Licences	2.5	3.0
Commissions	31.8	28.9
Other	0.3	0.0
Special direct distribution costs	**107.8**	**98.2**

(23) Cost of sales

The cost of sales comprises the production cost of goods sold as well as the purchase price of merchandise sold. In addition to direct materials and production costs, it also includes overheads as well as depreciation on production equipment, amortisation of intangible assets and impairment charges to inventories.

To improve comparability, the cost of sales and administrative expenses for the prior year were adjusted by € 5.7 million and € 10.2 million, respectively, to reflect the changed definition of the cost of services sold. In contrast, distribution costs were increased by € 15.9 million.

(24) Distribution costs

This position includes personnel expenses for the distribution staff as well as depreciation and other operating expenses from the distribution services or units.

(25) Administrative expenses

Administrative expenses consist primarily of expenses for research and development as well as personnel expenses for the administrative functions.

(26) Other income

Other income includes:

in € million	2006	2005 [1]
Gains from the disposal of property, plant and equipment and intangible assets	2.6	1.9
Income from the reversal of impairment losses on property, plant and equipment	0.0	0.7
Other	7.3	26.2
Other income	**9.9**	**28.8**

1) The comparable prior year period was adjusted to reflect the application of the addition to IAS 21.

Honeywell International Inc. made a payment of € 16.9 million to RHI in December 2005 following the filing of a reorganisation plan by North American Refractories Co. with a court in Pittsburgh. North American Refractories Co. is still subject to Chapter 11-proceedings under the US Bankruptcy Act, and was deconsolidated by RHI at the end of 2001. This payment was reported as other income in 2005.

(27) Other expenses

Other expenses include the following:

in € million	2006	2005 [1]
Losses from the disposal of property, plant and equipment and intangible assets	1.8	1.4
Foreign exchange losses	0.1	0.4
Other	2.7	2.4
Other expenses	**4.6**	**4.2**

1) The comparable prior year period was adjusted to reflect the application of the addition to IAS 21.

Foreign exchange losses contain the net gains and losses from changes in foreign exchange rates between the rate on the date of initial recognition (monthly average) and the rate on the date of payment (spot rate) as well as foreign exchange effects from measurement as of the balance sheet date.

(28) Expense categories

Expenses are classified by category as follows:

in € million	2006	2005 [1]
Cost of material and other production services	686.1	591.2
Personnel expenses	295.5	283.8
Depreciation of property, plant and equipment and amortisation of other intangible assets	45.7	40.9

1) The comparable prior year period was adjusted to reflect the application of the addition to IAS 19.

(29) Personnel expenses

The individual components of personnel expenses are listed below:

in € million	2006	2005 [1]
Wages and salaries	225.8	218.4
Pensions		
- Defined benefit plans	2.5	1.3
- Defined contribution plans	1.9	1.7
Termination benefits		
- Defined benefit plans	2.5	2.1
- Defined contribution plans	0.5	0.4
- Voluntary payments	0.3	0.9
Fringe benefits	62.0	59.0
Personnel expenses	**295.5**	**283.8**

1) The comparable prior year period was adjusted to reflect the application of the addition to IAS 19.

(30) Financial results

Financial results include interest results and other financial results.

in € million	2006	2005
Interest results	-24.7	-26.8
Other financial results	-0.3	1.5
Financial results	**-25.0**	**-25.3**

Interest results were calculated as follows:

in € million	2006	2005
Gains from securities and non-current receivables	1.9	1.6
Other interest and similar income	5.2	6.5
Interest and similar expenses	-31.8	-34.9
Interest results	**-24.7**	**-26.8**

Interest and similar expenses include the interest portion of the addition to personnel provisions, which equals € 16.1 million (2005: € 15.8 million). As in the prior year, the compounding of other non-current provisions did not result in any interest expense.

Other financial results are classified as follows:

in € million	2006	2005
Income from investments	0,6	0,5
Losses from investments	0,0	-0,1
Gains from the disposal of and write-up to financial assets and current securities	0,0	1,5
Impairment charges to financial assets and current securities	-0,9	-0,4
Other financial results	**-0,3**	**1,5**

(31) Income taxes

This item comprises the income taxes paid or owed by companies in the RHI Group as well as provisions for deferred taxes.

The classification is as follows:

in € million	2006	2005 [1]
Current tax expense	11.4	19.4
Deferred tax (income)/expense relating to the origination and reversal of		
temporary differences	-3.7	-4.7
tax loss carryforwards	5.6	-4.9
	1.9	-9.6
Income taxes	**13.3**	**9.8**

1) The comparable prior year period was adjusted to reflect the application of the addition to IAS 19.

Income tax expense of € 13.3 million for 2006 is € 14.3 million lower than the arithmetic income tax expense of € 27.6 million that would result from the application of the Austrian corporate income rate of 25 percent to Group profit before income taxes.

The difference between the arithmetic and recognised tax expense for the Group resulted from the following factors:

in € million	2006	2005 [1]
Profit before income taxes	**110.4**	**92.6**
Arithmetic tax expense	**27.6**	**23.2**
Different foreign tax rates	3.2	4.5
Expenses not deductible for tax purposes	3.7	2.6
Income not subject to tax	-3.2	-2.4
Reduction in current income tax expense due to utilisation of previously unrecognised tax losses and temporary differences	-15.5	-27.8
Reduction in deferred income tax expense due to utilisation of previously unrecognised tax losses and temporary differences	-0.6	-4.1
Deferred tax income due to changes in tax rates	-0.3	0.0
Deferred income tax relating to prior periods	2.2	0.0
Current income tax relating to prior periods	-2.4	3.3
Other	-1.4	10.5
Recognised tax expense	**13.3**	**9.8**

1) The comparable prior year period was adjusted to reflect the application of the additions to IAS 19 and IAS 21.

Notes to the Cash Flow Statement

The cash flow statement, which is derived from the consolidated financial statements of RHI AG using the indirect method, shows the cash inflows and outflows from operating activities, investing activities and financing activities.

The cash flow statement cannot be derived directly from changes in the balance sheet items because effects arising from changes in the consolidation range are non-cash items.

Furthermore, the cash flow statement of the continuing operations and discontinued operations are presented separately. Transactions between the two divisions are not consolidated.

Changes in the balance sheet items of companies that report in foreign currencies are translated at average monthly exchange rates.

(32) Cash flow from operating activities

Cash flow from operating activities shows the net inflow of cash and cash equivalents based on profit after income taxes, which is adjusted for non-cash income and expenses (primarily depreciation and amortisation) and results that are allocated to cash flows from investing or financing activities as well as tax receipts and payments after the changes in the individual components of working capital.

in € million	2006	2005 [1]
Profit after income taxes	97.1	82.8
Adjustments for		
Income taxes	13.3	9.8
Depreciation, amortisation and impairment losses of non-current assets	46.6	41.2
Write-ups to non-current assets	0.0	-2.2
Proceeds from sale of non-current assets	-0.8	-0.5
Interest results	24.7	26.8
Dividend income	-0.6	-0.5
Results from associates	-1.6	-2.4
Other	-6.5	0.2
Change in working capital		
Inventories	-24.0	1.3
Trade receivables	-40.9	-10.7
Trade payables	8.6	-4.0
Other receivables and assets	13.9	-7.9
Provisions	-21.8	-22.4
Other liabilities	-45.5	4.0
Cash flow from operating activities	**62.5**	**115.5**
Income taxes paid	-11.6	-7.2
Net cash flow from operating activities	**50.9**	**108.3**

1) The comparable prior year period was adjusted to reflect the application of the additions to IAS 19 and IAS 21.

(33) Cash flow from investing activities

Cash flow from investing activities shows the cash inflows and outflows for disposals of and additions to non-current assets.

Cash effects from the acquisition or sale of shares in fully consolidated subsidiaries (net change in cash and cash equivalents from initial consolidations and deconsolidations) are shown separately.

Interest and dividends received are included under cash flow from investing activities.

(34) Cash flow from financing activities

Cash flow from financing activities includes outflows in the form of dividend payments, the issue of the convertible bond, the change in liabilities to financial institutions and the changes in other financial receivables and financial liabilities.

The conversion of convertible bonds totalling € 22.6 million in 2006 (2005: € 29.7 million) is not shown separately on the cash flow statement because this is a non-cash transaction.

Interest expense payments are allocated to cash flow from financing activities, whereby the interest component for employee-related provisions is allocated as a non-cash item to the change in personnel provisions.

Other Disclosures

(35) Segment reporting

Primary segmentation by division in 2006

The RHI Group comprises the continuing operations in the Refractories Division with the steel and industrial segments as well as raw materials, production and other segment, and the discontinued operations in the Insulating Division. Consolidation effects are included under eliminations.

in € million	Steel	Industrial	Raw materials, production, other	Elimination	**Continuing operations**	**Discontinued operations**
External revenues	815.8	463.2	56.8	0.0	**1,335.8**	**106.2**
Intragroup revenues	0.0	0.0	827.9	-827.9	**0.0**	**0.0**
Segment revenues	**815.8**	**463.2**	**884.7**	**-827.9**	**1,335.8**	**106.2**
Operating results	68.3	58.3	7.2		**133.8**	**7.3**
Financial results					**-25.0**	**-2.1**
Results from associates			1.6		**1.6**	**0.0**
Profit before income taxes					**110.4**	**5.2**
Income taxes					**-13.3**	**-1.9**
Profit for the year from continuing operations					**97.1**	
Profit for the year on discontinued operations						**3.3**
Gain on the disposal of discontinued operations						**57.5**
Profit for the year from discontinued operations						**60.8**
Profit attributable to						
equity holders of RHI AG					**94.2**	**60.8**
minority interest					**2.9**	

in € million	Steel	Industrial	Raw materials, production, other	**Continuing operations**	**Discontinued operations**
Investments in associates			13.3	**13.3**	
Other assets	275.6	115.6	600.0	**991.2**	
Unattributed assets				**188.2**	
Total assets				**1,192.7**	
Debt	171.1	71.8	372.5	**615.4**	
Unattributed debt				**641.8**	
Total debt				**1,257.2**	
Investments	5.8	1.0	45.0	**51.8**	**4.2**
Depreciation and amortisation	4.9	1.1	39.4	**45.4**	
Impairment	0.1	0.2		**0.3**	

Primary segmentation by division in 2005

in € million	Steel	Industrial	Raw materials, production, other	Elimination	**Continuing operations [1)]**	**Discontinued operations**
External revenues	735.8	408.9	54.7	0.0	**1,199.4**	**255.4**
Intragroup revenues	0.0	0.0	737.3	-737.3	**0.0**	**0.0**
Segment revenues	**735.8**	**408.9**	**792.0**	**-737.3**	**1,199.4**	**255.4**
Operating results	59.7	49.1	6.7		**115.5**	**26.2**
Financial results					**-25.3**	**-5.1**
Results from associates			2.4		**2.4**	**-0.2**
Profit before income taxes					**92.6**	**20.9**
Income taxes					**-9.8**	**-6.4**
Profit for the year from continuing operations					**82.8**	
Profit for the year from discontinued operations						**14.5**
Profit attributable to						
equity holders of RHI AG					**81.3**	**14.3**
minority interest					**1.5**	**0.2**

in € million	Steel	Industrial	Raw materials, production, other	**Continuing operations [1)]**	**Discontinued operations**
Investments in associates			13.9	**13.9**	**1.4**
Other assets	284.9	96.1	585.1	**966.1**	**230.4**
Unattributed assets				**261.8**	**23.9**
Total assets				**1,241.8**	**255.7**
Debt	170.4	57.5	350.0	**577.9**	**213.6**
Unattributed debt				**910.2**	**8.3**
Total debt				**1,488.1**	**221.9**
Investments	6.3	2.4	57.5	**66.2**	**15.9**
Depreciation and amortisation	4.3	1.2	35.4	**40.9**	**9.2**
Impairment					**0.3**
Write-ups			0.7	**0.7**	

1) The comparable prior year period was adjusted to reflect the application of the additions to IAS 19 and IAS 21.

Secondary segmentation by region in 2006

Secondary segment reporting is based on geographical regions. Revenues are allocated to the individual segments by customer location and asset-related figures are allocated based on the location of the RHI Group company.

	2006				31.12.2006
	Revenues		**Investments**		**Assets**
in € million	Continuing operations	Discontinued operations	Continuing operations	Discontinued operations	Continuing operations
Austria	52.6	15.8	26.8	1.8	452.7
Rest of EU	505.6	65.8	11.0	2.2	269.8
Other Europe	118.5	24.1	0.2	0.2	28.3
North and South America	355.9	0.0	4.0	0.0	173.8
Asia-Pacific, Africa	303.2	0.5	9.8	0.0	111.9
Consolidation	0.0	0.0	0.0	0.0	156.2
Total	**1,335.8**	**106.2**	**51.8**	**4.2**	**1,192.7**

Revenues and investments for the discontinued Insulating Division comprise the months from January to May 2006.

Secondary segmentation by region in 2005

	1.1. -31.12.2005				31.12.2005	
	Revenues		**Investments**		**Assets**	
in € million	Continuing operations	Discontinued operations	Continuing operations	Discontinued operations	Continuing operations [1)]	Discontinued operations
Austria	65.4	40.4	22.1	6.6	421.6	52.5
Rest of EU	435.0	161.7	19.8	8.4	251.2	141.2
Other Europe	113.2	50.9	1.0	0.9	29.8	15.9
North and South America	315.5	0.0	7.7	0.0	196.2	0.0
Asia-Pacific, Africa	270.3	2.4	15.6	0.0	109.5	0.0
Consolidation	0.0	0.0	0.0	0.0	233.5	46.1
Total	**1,199.4**	**255.4**	**66.2**	**15.9**	**1,241.8**	**255.7**

1) The comparable prior year period was adjusted to reflect the application of the addition to IAS 19.

(36) Earnings per share for continuing operations

In accordance with IAS 33, earnings per share are calculated by dividing the profit attributable to the equity holders of RHI AG by the weighted average number of shares outstanding during the financial year.

	2006	2005 [1)]
Profit attributable to equity holders of RHI AG (in € million)	94.2	81.3
Weighted average number of shares	26,674,717	23,490,895
Basic earnings per share (in €)	**3.53**	**3.46**

1) The comparable prior year period was adjusted to reflect the application of the additions to IAS 19 and IAS 21.

The calculation of diluted earnings per share adjusts the weighted number of shares outstanding to also include the maximum number of shares that could result from the exercise of conversion rights for the convertible bond. The proportional share of profit is also increased to reflect the expenses incurred in connection with the convertible bond.

	2006	2005 [1]
Profit attributable to equity holders of RHI AG (in € million)	94.2	81.3
Plus interest expense of convertible bonds (in € million)	6.3	7.0
Less current taxes (in € million)	-1.6	-1.8
Adjusted result for the period (in € million)	98.9	86.5
Weighted average number of shares	26,674,717	23,490,895
Potential number of shares from convertible bonds	13,144,322	16,029,095
Number of diluted shares	39,819,039	39,519,990
Diluted earnings per share (in €)	**2.48**	**2.19**

1) The comparable prior year period was adjusted to reflect the application of the additions to IAS 19 and IAS 21.

(37) Derivative financial instruments

As of 31 December 2006, the measurement of derivatives that are included in orders or embedded in foreign currency trade receivables led to the recognition of a separate asset item that equalled approximately € 0.4 million (31.12.2005: € 0.1 million) and a separate liability item of approximately € 0.4 million (31.12.2005: € 0.7 million). Income of € 0.6 million was recognised for the financial year 2006 (2005: € 0.2 million).

(38) Notes on related party transactions

Related companies

The following tables show the volume of services rendered to or provided by closely related companies as well as the outstanding receivables due from and payables due to closely related companies:

	Volume of services rendered		Receivables	
in € million	2006	2005	31.12.2006	31.12.2005
Associates				
Other				
MAGNIFIN Magnesiaprodukte GmbH & Co KG, St. Jakob, Austria	2.4	2.8	0.6	1.4
Shandong RHI New Materials Co., Ltd., Zibo City, PR China	0.4	0.5	0.7	0.5
	2.8	3.3	1.3	1.9
Discontinued operations				
Trade receivables				
Deutsche Heraklith GmbH, Simbach, Germany	0.4	0.9	0.0	0.2
Heraklith AG, Ferndorf, Austria	1.0	2.3	0.0	0.4
Financing				
Heraklith AG, Ferndorf, Austria	0.0	1.1	0.0	1.1
Heraklith Consulting & Engineering GmbH, Fürnitz, Austria	2.1	3.2	0.0	116.7
Other				
Heraklith AG, Ferndorf, Austria	0.0	0.3	0.0	0.0
	3.5	7.8	0.0	118.4
Related companies	**6.3**	**11.1**	**1.3**	**120.3**

in € million	Volume of services provided by related parties 2006	2005	Payables 31.12.2006	31.12.2005
Associates				
Trade payables				
MAGNIFIN Magnesiaprodukte GmbH & Co KG, St. Jakob, Austria	0.1	0.0	0.8	0.7
Discontinued operations				
Other				
Heraklith AG, Ferndorf, Austria	0.0	1.1	0.0	0.0
Heraklith Consulting & Engineering GmbH, Fürnitz, Austria	0.0	1.4	0.0	0.2
	0.0	2.5	0.0	0.2
Related companies	**0.1**	**2.5**	**0.8**	**0.9**

Related persons

The income statement for 2006 includes expenses of € 5.3 million (2005: € 3.4 million) for the Management Board. Liabilities and provisions of € 3.3 million (31.12.2005: € 1.4 million) were recognised for the Management Board.

During the reporting year, payments of € 2.8 million (2005: € 3.4 million) were made to the members of the Management Board. Of this total, € 2.8 million (2005: € 2.6 million) represent salaries and other current benefits, while € 0.0 million (2005: € 0.8 million) are related to the convertible bond management stock option plan.

Payments made to former members of the Management Board and their surviving dependents totalled € 0.3 million (2005: € 0.3 million).

The members of the Supervisory Board received remuneration of € 0.2 million (2005: € 0.2 million), which was recognised as an expense for the reporting year.

As of the balance sheet date, there were no loans outstanding to members of the Management Board or Supervisory Board and no contingent liabilities on behalf of these persons.

(39) Option plan

Options granted in 2005

In a meeting on 21 January 2003 the Supervisory Board of RHI AG approved the convertible bond management stock option plan that was announced in the Wiener Zeitung on 3/4 January 2003, based on a joint report of the Management Board and Supervisory Board in accordance with §§ 95 Par. 6 and 159 Par. 2 Nr. 3 of the Austrian Stock Corporation Act.

The convertible bond management stock option plan for 2002 comprised options for the purchase of a total of 210 individual bearer convertible bond certificates. Each option entitled the owner to purchase one individual convertible bond certificate.

The options were exercisable in three equal tranches during 2003, 2004 and 2005 within three months after the publication date for the consolidated financial statements of the previous financial year.

The exercise price for an individual convertible bond certificate in 2003 equalled the nominal value of the individual convertible bonds certificate, i.e. € 40,000. The exercise price amounted to € 44,000 for 2004 and € 48,000 for 2005.

The members of the Management Board of RHI AG and Heraklith AG received 60 options. Each of the four members of the Management Board of RHI AG and Heraklith AG was entitled to purchase a maximum of five options per year. The first level managers received 150 options, whereby each eligible manager was entitled to purchase a maximum of two options per year. No options were granted to the members of the Supervisory Board.

	Total number of options granted	Number of options granted in reporting period	Number of options exercised/lapsed in reporting period	Number of options outstanding at balance sheet date	Estimated value of options at balance sheet date in €
Management Board of RHI AG					
Helmut Draxler	15	0	-5	0	0
Andreas Meier	15	0	-5	0	0
Eduard Zehetner	15	0	-5	0	0
Management Board of Heraklith AG					
Roland Platzer	15	0	-5	0	0
Senior management	150	0	-50	0	0
Options granted	**210**	**0**	**-70**	**0**	**0**

The option rights were not transferable and were not subject to a holding period.

One individual convertible bond certificate was convertivle into 5,500 RHI AG shares.

Options exercised in 2005

	Number of options exercised in reporting period	Exercise price in €	Value when exercised in €
Management Board of RHI AG			
Helmut Draxler	5	240,000	510,000
Andreas Meier	5	240,000	510,000
Eduard Zehetner	5	240,000	510,000
Management Board of Heraklith AG			
Roland Platzer	5	240,000	510,000
Senior management	42	2,016,000	4,284,000
Options exercised	**62**	**2,976,000**	**6,324,000**

Neither the market value nor the intrinsic value of the options granted was recognised in the income statement as remuneration expense.

The option programme for management expired in 2005.

(40) Personnel

The average number of employees in the RHI Group was:

	2006	2005
Salaried employees	2,651	2,533
Waged workers	3,875	3,834
Continuing operations	**6,526**	**6,367**
Discontinued operations	**2,234**	**2,236**

(41) RHI Group Companies as of 31 December 2006

The following table lists the stakes held by the RHI Group:

	Type of consolidation	Parent	Currency	Nominal capital in local currency	Share in group companies %
1. RHI AG, Vienna, Austria	F		EUR	212,074,127	
2. Betriebs- und Baugesellschaft mbH, Wiesbaden, Germany	F	6.	EUR	894,761	100.00
3. Corrosion Technology Peru, S.A. i.L., Lima, Peru	F	13.,34.	PEN	31,021	100.00
4. Didier Belgium N.V., Evergem, Belgium	F	63.	EUR	74,368	99.90
5. Didier Vertriebsgesellschaft mbH, Wiesbaden, Germany	F	6.	EUR	178,952	100.00
6. Didier-Werke AG, Wiesbaden, Germany	F	1.,25.	EUR	63,000,000	97.54
7. Dolomite Franchi S.p.A., Brescia, Italy	F	30.	EUR	5,940,000	60.00
8. D.S.I.P.C.-Didier Société Industrielle de Production et de Constructions, Breuillet, France	F	6.	EUR	1,735,990	99.88
9. Dutch MAS B.V., Arnhem, Netherlands	F	6.	EUR	30,000	100.00
10. Dutch US Holding B.V., Arnhem, Netherlands	F	65.	EUR	18,000	100.00
11. FC Technik AG, Winterthur, Switzerland	F	25.	CHF	100,000	51.00
12. Full Line Supply Africa (Pty) Limited, Sandton, South Africa	F	25.	ZAR	100	100.00
13. GIX International Limited, Wakefield, Great Britain	F	16.	GBP	1,004	100.00
14. INDRESCO U.K. Ltd., Wakefield, Great Britain	F	13.	GBP	10,029,219	100.00
15. Isolit-Isolier GmbH, Vienna, Austria	F	25.	EUR	646,788	100.00
16. Latino America Refractories ApS, Copenhagen, Denmark	F	72.	EUR	20,000	100.00
17. Liaoning RHI Jinding Magnesia Co., Ltd., Dashiqiao City, PR China	F	25.	CNY	22,224,620	80.00
18. Lokalbahn Mixnitz-St. Erhard AG, Vienna, Austria	F	56.	EUR	119,397	100.00
19. Magnesit Anonim Sirketi, Eskisehir, Turkey	F	9.	TRY	16,750,000	100.00
20. Magnesitwerk Aken Vertriebsgesellschaft mbH, Aken, Germany	F	6.	EUR	130,000	100.00
21. MARVO Feuerungs- und Industriebau GmbH, Kerpen, Germany	F	6.	EUR	513,450	100.00
22. MARVO Feuerungs- und Industriebau GmbH, Siersleben, Germany	F	21.	EUR	25,565	100.00
23. OOO RHI CIS, Moscow, Russia	F	1.,25.	RUB	3,500,000	100.00
24. Producción RHI México, S. de R.L. de C.V., Ramos Arizpe, Mexico	F	48.,72.	MXN	9,441,250	100.00
25. Radex Vertriebsgesellschaft mbH, Leoben, Austria	F	69.	EUR	60,000,000	100.00
26. REFEL S.p.A., San Vito al Tagliamento, Italy	F	6.	EUR	5,200,000	100.00
27. Refractarios RHI CHILE LTDA., Santiago, Chile	F	13.,72.	CLP	12,073,359,422	100.00
28. Refractory Intellectual Property GmbH, Vienna, Austria	F	1.	EUR	17,500	100.00
29. Refractory Intellectual Property GmbH & Co KG, Vienna, Austria	F	1.,28.	EUR	10,000	100.00
30. Refrattari Italiana S.p.A., Genoa, Italy	F	25.	EUR	4,160,000	100.00
31. RHI Africa Investment Holdings (Pty) Ltd., Sandton, South Africa	F	6.	ZAR	215,705	100.00
32. RHI Argentina S.R.L., Buenos Aires, Argentina	F	16.,72.	ARS	10,000	100.00
33. RHI Canada Inc., Burlington, Canada	F	72.	CAD	11,500,002	100.00
34. RHI CHILE S.A., Santiago, Chile	F	13.,72.	CLP	12,774,407,413	100.00
35. RHI Clasil Limited, Hyderabad, India	F	72.	INR	184,000,000	51.00
36. RHI Dinaris GmbH, Wiesbaden, Germany	F	63.	EUR	500,000	100.00
37. RHI Finance A/S, Hellerup, Denmark	F	1.	EUR	70,000	100.00
38. RHI GLAS GmbH, Wiesbaden, Germany	F	63.	EUR	500,000	100.00
39. RHI Isithebe (Pty) Limited, Sandton, South Africa	F	25.	ZAR	120	100.00
40. RHI Monofrax, Ltd., Wilmington, USA	F	10.	USD	1	100.00
41. RHI Monofrax PPE LLC, Wilmington, USA	F	40.	USD	0	100.00
42. RHI-Refmex, S.A. de C.V., Ramos Arizpe, Mexico	F	48.,72.	MXN	163,937,660	100.00
43. RHI Refractories Africa (Pty) Ltd., Sandton, South Africa	F	31.	ZAR	10,000	100.00

	Type of consolidation	Parent	Currency	Nominal capital in local currency	Share in group companies %
44. RHI Refractories Andino C.A., Puerto Ordaz, Venezuela	F	72.	VEB	1,600,000,594	100.00
45. RHI Refractories Asia Ltd., Hong Kong, PR China	F	64.	HKD	1,000	100.00
46. RHI Refractories Asia Pacific Pte. Ltd., Singapore	F	1.	SGD	300,000	100.00
47. RHI Refractories (Dalian) Co., Ltd., Dalian, PR China	F	25.	CNY	224,650,800	100.00
48. RHI Refractories España, S.L., Lugones, Spain	F	6.,9.	EUR	6,930,000	100.00
49. RHI Refractories France S.A., Breuillet, France	F	64.	EUR	703,800	100.00
50. RHI Refractories Holding Company, Dover, USA	F	72.	USD	1	100.00
51. RHI Refractories Ibérica, S.L., Madrid, Spain	F	64.	EUR	30,050	100.00
52. RHI Refractories Italiana s.r.l., Brescia, Italy	F	64.	EUR	110,000	100.00
53. RHI Refractories Liaoning Co., Ltd., Bayuquan, PR China	F	25.	CNY	180,000,000	60.00
54. RHI Refractories Mercosul Ltda, Sao Paulo, Brazil	F	72.	BRL	49,250	99.50
55. RHI Refractories Nord AB, Stockholm, Sweden	F	64.	SEK	1,000,000	100.00
56. RHI Refractories Raw Material GmbH, Vienna, Austria (formerly: Veitsch-Radex Immobilien GmbH)	F	1.,25.	EUR	35,000	100.00
57. RHI Refractories Site Services GmbH, Wiesbaden, Germany	F	6.	EUR	1,025,000	100.00
58. RHI Refractories (Site Services) Ltd., Cirencester, Great Britain	F	59.	GBP	1,350,000	100.00
59. RHI Refractories Spaeter GmbH, Urmitz, Germany	F	6.	EUR	256,157	66.67
60. RHI Refractories UK Limited, Clydebank, Great Britain	F	6.	GBP	8,875,000	100.00
61. RHI Rückversicherungs AG, Vaduz, Liechtenstein	F	25.	EUR	900,000	100.00
62. RHI Trading (Dalian) Co., Ltd., Dalian, PR China	F	25.	CNY	39,865,230	100.00
63. RHI Urmitz AG & Co KG, Urmitz, Germany	F	5.,6.	EUR	2,454,250	100.00
64. SAPREF AG für feuerfestes Material, Basel, Switzerland	F	72.	CHF	4,000,000	100.00
65. Veitscher Vertriebsgesellschaft mbH, Vienna, Austria	F	1.	EUR	36,336	100.00
66. Veitsch-Radex America Inc., Burlington, Canada	F	33.	CAD	1	100.00
67. Veitsch-Radex America Inc., Mokena, USA	F	33.	USD	100	100.00
68. Veitsch-Radex GmbH, Vienna, Austria	F	1.	EUR	35,000	100.00
69. Veitsch-Radex GmbH & Co, Vienna, Austria	F	1.,68.	EUR	106,000,000	100.00
70. Veitsch-Radex Vertriebsgesellschaft mbH, Vienna, Austria	F	1.	EUR	36,336	100.00
71. VERA FE, Dnipropetrovsk, Ukraine	F	25.	UAH	192,600	100.00
72. VRD Americas B.V., Arnhem, Netherlands	F	1.,25.	EUR	34,033,970	100.00
73. Zimmermann & Jansen GmbH, Düren, Germany	F	6.	EUR	3,835,000	100.00
74. Didier (Zambia) Ltd., Kitwe, Zambia	N	6.	ZMK	200,000	80.00
75. Dolomite Franchi GmbH, Hattingen, Germany	N	7.	EUR	25,564	100.00
76. Dr.-Ing. Petri & Co. Unterstützungs-Gesellschaft mbH, Duisburg, Germany	N	6.	DEM	50,000	100.00
77. RHI Réfractaires Algérie E.U.R.L., Sidi Amar, Algeria	N	49.	DZD	100,000	100.00
78. Thor Ceramics Limited, Clydebank, Great Britain	N	6.	GBP	1	100.00
79. Dolomite di Montignoso S.p.A. i.L., Genoa, Italy	E	30.	EUR	743,600	28.56
80. MAGNIFIN Magnesiaprodukte GmbH & Co KG, St. Jakob, Austria	E	1.,83.	EUR	9,447,468	50.00
81. Shandong RHI New Materials Co., Ltd., Zibo City, PR China	E	25.	CNY	60,600,000	50.00
82. Società Dolomite Italiana SDI S.p.A., Gardone Val Trompia, Italy	E	30.	EUR	208,000	50.00
83. MAGNIFIN Magnesiaprodukte GmbH, St. Jakob, Austria	I	1.	EUR	35,000	50.00
84. Stopinc AG, Hünenberg, Switzerland	I	6.	CHF	1,000,000	50.00
85. Treuhandgesellschaft Feuerfest mbH, Bonn, Germany	I	6.,57.,63.	DEM	50,000	38.00
86. Zimmermann & Jansen Siam Co. Ltd., Rayong, Thailand	I	73.	THB	4,000,000	39.80

i.L. ....in liquidation

F.......full consolidation
E.......associates, equity consolidation
N.......not consolidated
I........investments

(42) Significant events after the balance sheet date

On 14 December 2006 an agreement was signed for the acquisition of the assets and liabilities of Monofrax Inc., Falconer, USA. This company produces fused cast refractory products, which are used above all by the glass industry. The preliminary purchase price totals € 27.1 million, and the transaction took effect on 31 January 2007.

A preliminary determination of net assets and the resulting negative goodwill shows the following:

in € million	31.1.2007
Purchase price paid in cash	27.1
Costs directly attributable to the acquisition	0.4
Total purchase price	**27.5**
Fair value of the acquired net assets – preliminary	-31.1
Negative goodwill	**-3.6**

The measurement of the intangible assets and property, plant and equipment of Monofrax Inc., Falconer, USA, at fair value resulted in a preliminary figure of € 3.6 million for negative goodwill.

The preliminary determination of assets and liabilities comprises the following:

in € million	Fair value	IFRS carrying amount
Non-current assets	25.9	7.1
Current assets	13.7	13.7
Non-current liabilities	-6.1	-6.1
Current liabilities	-2.4	-2.4
Net assets acquired	**31.1**	**12.3**

Since 1 January 2007, 598 individual convertible bond certificates from tranche A have been registered for conversion into a total of 3,289,000 new RHI shares. This conversion will raise the number of shares outstanding to 32,471,039, subject to the receipt of all necessary approvals and the recording of the capital increase in the company register. As a result of this conversion, the equity of RHI AG will increase by € 23.9 million.

From the current point of view, the continuation and conclusion of the Chapter 11-proceedings on the former US subsidiaries are not expected to lead to any expenses for the RHI Group. The Chapter 11-proceedings are still in progress.

(43) Release of the consolidated financial statements 2006 for publication

These consolidated financial statements were prepared and signed by the Management Board, and also released for publication, on the date shown below.

The individual financial statements of the parent company, which were also included in the consolidated financial statements after the transition to International Financial Reporting Standards, will be submitted to the Supervisory Board for review and approval on 24 April 2007. The Supervisory Board and the shareholders may change these individual financial statements in such a way that may also affect the presentation of the consolidated financial statements.

Members of the Management Board and the Supervisory Board

The following persons served on the RHI Management Board during the reporting period:

Andreas Meier, Vienna, CEO (since 15 January 2007)
Eduard Zehetner, Vienna, Deputy CEO (since 15 January 2007)
Giorgio Cappelli, Vienna (since 1 January 2007)
Manfred Hödl, Vienna (since 1 January 2007)
Helmut Draxler, Vienna, CEO (until 14 January 2007)

The following persons served on the Supervisory Board:

Michael Gröller, Vienna, Chairman
Gerd Peskes, Düsseldorf, Germany, Deputy Chairman
Gerd Klaus Gregor, Vienna
Cornelius Grupp, Lilienfeld
Stanislaus Prinz zu Sayn-Wittgenstein-Berleburg, Munich, Germany
Erhard Schaschl, Vienna
Kurt Waniek, Vienna (since 1 June 2006)

Employee representatives:

Josef Horn, Trieben
Martin Kowatsch, Radenthein (since 19 June 2006)
Leopold Miedl, Vienna
Karl Wetzelhütter, Breitenau am Hochlantsch

Vienna, 20 March 2007

Management Board:

Andreas Meier
m.p.

Eduard Zehetner m.p.	Giorgio Cappelli m.p.	Manfred Hödl m.p.

Unqualified Auditor's Report

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of RHI AG, Vienna, for the financial year from 1 January 2006 to 31 December 2006. These consolidated financial statements comprise the consolidated balance sheet as at 31 December 2006, the consolidated income statement, cash flow statement and statement of recognised income and expenses for the year ending on 31 December 2006 as well as a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and in accordance with International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

Our audit did not give rise to any objections. Based on the results of our audit in our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2006 and its financial performance and cash flows for the financial year from 1 January 2006 to 31 December 2006 in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU.

Report on the consolidated management report

Laws and regulations applicable in Austria require us to perform audit procedures to determine whether the consolidated management report is consistent with the consolidated financial statements and to determine whether the other disclosures made in the consolidated management report do not give rise to misconception of the position of the group.

In our opinion, the consolidated management report for the group is consistent with the consolidated financial statements.

Vienna, 20 March 2007

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Peter Ertl	Martin Wagner
Certified Public Accountant	Certified Public Accountant
m.p.	m.p.

Report of RHI AG 2006

Management report

As was pointed out at the beginning of the management report of the RHI Group, the option to summarize the management report of RHI AG with the group management report pursuant to § 267 (4) UGB together with § 251 (3) UGB (Austrian Commercial Code) was exercised. RHI had no branch offices in the reporting period.

Vienna, 20 March 2007

Management Board:

Andreas Meier
m.p.

Eduard Zehetner m.p.	Giorgio Cappelli m.p.	Manfred Hödl m.p.

Report of the Supervisory Board

The Supervisory Board of RHI AG, Vienna, held seven meetings during the course of 2006. At these meetings and on other occasions, the Management Board informed the Supervisory Board about important matters relating to the management, operating activities and the situation of the company. The Supervisory Board therefore had ample opportunity to fulfil its obligation to remain informed of and to monitor company operations. The Supervisory Board saw no reason to raise objections to the activities and operations of the Management Board. Pursuant to Article 58 of the Code of Corporate Governance it is pointed out that one member of the Supervisory Board (C. Grupp) did not participate in person in more than half of the meetings held in the financial year 2006.

The financial statements of RHI AG and the consolidated financial statements 2006 were audited and certified without qualification by KPMG Austria GmbH, Vienna, certified public accountants, auditors and tax consultants, duly appointed auditors at the 27th Annual General Meeting. Furthermore, the auditors confirmed that the management report prepared by the Management Board is in accordance with the financial statements of RHI AG and the consolidated financial statements. The auditor's report was submitted to the members of the Supervisory Board in accordance with § 273 (3) UGB (Austrian Commercial Code).

At the meeting of the audit committee held on 11 April 2007, the financial statements of RHI AG and the RHI Group were examined and preparations made for the approval thereof.

The Supervisory Board examined the financial statements submitted by the Management Board and the management report for the year 2006 and approved these at its meeting on 24 April 2007. The financial statements of RHI AG have thus been approved in accordance with § 125 (2) AktG (Companies Act). At the same meeting, the Supervisory Board approved the consolidated financial statements.

The Supervisory Board approved the Board of Management's proposed appropriation of earnings.

The audit committee held two meetings in 2006; the presidium (at the same time personnel committee) held five meetings. In addition to the audit of the financial statements, internal auditing, personnel topics and current developments were discussed at these meetings.

Vienna, 24 April 2007

Michael Gröller
Chairman

Balance Sheet RHI AG 2006[1]

in € 1,000	31.12.2006	31.12.2005
ASSETS		
Non-current assets		
Intangible assets	23,621.8	23,703.4
Property, plant and equipment	12,619.8	4,723.6
Financial assets	609,552.6	613,294.3
	645,794.2	**641,721.3**
Current assets		
Inventories	28,410.6	23,619.9
Receivables and other assets	532,275.4	804,921.5
Cash and cash equivalents	37,411.0	2,470.5
	598,097.0	**831,011.9**
Prepaid expenses and deferred charges	**2,473.8**	**4,119.0**
	1,246,365.0	**1,476,852.2**
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	212,074.1	189,531.0
Additional paid-in capital	39,084.1	39,067.3
Accumulated profit	159,751.6	131,228.4
	410,909.8	**359,826.7**
Subordinated mezzanine capital		
Subordinated bank loans	0.0	400,000.0
Subordinated convertible bond	77,360.0	99,920.0
Effective equity capital	**488,269.8**	**859,746.7**
Provisions		
Provisions for termination benefits and pensions	46,125.9	28,159.4
Other provisions	76,384.7	72,495.2
	122,510.6	**100,654.6**
Liabilities		
Financial liabilities	458,924.0	224,770.6
Trade payables	10,359.7	13,968.4
Other liabilities	166,300.9	277,711.9
	635,584.6	**516,450.9**
	1,246,365.0	**1,476,852.2**
Contingent liabilities	27,082.9	43,521.0

1 The 2006 financial statements of RHI AG were compiled in accordance with the Austrian Commercial Code (UGB) as amended. The financial statements shown here are a summarized presentation of the audited financial statements.

Income Statement RHI AG 2006[1]

in € 1,000	2006	2005
Revenue	808,904.9	719,576.7
Change in inventories of finished goods and services not yet invoiced	1,908.2	463.6
Other own work capitalised	7.7	0.0
Other operating income	38,659.0	55,093.0
Cost of material and other production services	-573,177.4	-518,084.0
Staff costs	-73,495.9	-56,707.2
Depreciation and amortisation	-6,609.9	-5,960.4
Other operating expenses	-179,727.9	-160,932.3
Operating result	**16,468.7**	**33,449.4**
Income from investments	25,934.3	76,083.8
Income from other non-current securities	317.6	226.5
Other interest	19,101.3	17,190.6
Gains from the write-up to financial assets	0.0	98.2
Expenses from financial assets	-15,624.9	-24,622.7
Interest and similar expenses	-16,646.8	-19,591.0
Financial result	**13,081.5**	**49,385.4**
Result from ordinary activities	**29,550.2**	**82,834.8**
Extraordinary expenses	-437.6	-1,003.1
Income taxes	-589.4	-320.7
Profit	**28,523.2**	**81,511.0**
Profit carried forward	131,228.4	49,717.4
Accumulated profit	**159,751.6**	**131,228.4**

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The English translation of the RHI annual report is for convenience.
Only the German text is binding.

This annual report contains forward-looking statements based on the currently held beliefs and assumptions of the management of RHI AG (“RHI”), which are expressed in good faith and, in their opinion, reasonable. Theses statements may be identified by words such as “expectation” or “target” and similar expressions, or by their context. Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, financial condition, performance, or achievements of RHI to differ materially from the results, financial condition, performance or achievements express or implied by such forward-looking statements. Given these risks, uncertainties and other factors, recipients of this document are cautioned not to place undue reliance on these forward-looking statements. RHI disclaims any obligation to update these forward-looking statements to reflect future events or developments.