RHI
Annual Financial Report

2007

RHI

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 system solutions.

Our actions reflect our values and our corporate strategy.

Our values are: **>> Power of innovation**
>> Openness
>> Reliability

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Key Figures of the RHI Group

Earnings indicators

in € million	2007	2006	Change
Revenues	1,485.8	1,335.8	11.2%
EBITDA	215.6	179.5	20.1%
EBITDA margin	14.5%	13.4%	8.2%
EBIT	164.3	133.8	22.8%
EBIT margin	11.1%	10.0%	11.0%
Profit before income taxes	126.5	110.4	14.6%
Profit from continuing operations	111.0	97.1	14.3%
Profit from discontinued operations	0.0	60.8	
Profit for the year	111.0	157.9	-29.7%
Cash flow from operating activities	154.8	50.9	204.1%
Capital expenditure	78.8	51.8	52.1%
Annual average number of employees	7,305	6,526	11.9%

Balance sheet indicators

in € million	2007	2006	Change
Balance sheet total	1,240.3	1,192.7	4.0%
Equity	95.6	-64.5	248.2%
Net debt	398.7	419.7	-5.0%
Gearing	417.1	-650.7	164.1%

Stock exchange indicators

in €	2007	2006	Change
Continuing operations			
Basic earnings per share	3.06	3.53	-13.3%
Diluted earnings per share	2.77	2.48	11.7%
Share price: high	42.73	38.98	9.6%
Share price: low	25.69	20.90	22.9%
Share price: average	36.16	27.37	32.1%
Share price at year-end	28.00	38.70	-27.6%
Market capitalisation at year-end (in € million)	1,049	1,048	0.1%
Number of shares (million units)	37.45	27.08	38.3%
Dividend per share	0.00	0.00	

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 indispensable for high-temperature processes exceeding 1,200 °C.

RHI mining, raw material and refractories production sites

Bécancour/CDN
Burlington/CDN
Falconer/US
Tlalnepantla/MEX
Ramos Arizpe/MEX
Santiago/RCH

HQ Vienna/AT
TC Leoben/AT
Hochfilzen/A
Radenthein/A
Breitenau/A
Veitsch/A
Trieben/A
Duisburg/D
Niederdollendorf/D
Mainzlar/D
Marktredwitz/D
Urmitz/D
Aken/D
Clydebank/GB
Evergem/B
Soufflenheim/F
Lugones/E
San Vito/I
Marone/I
Eskişehir/TR
Tugela/ZA
Isithebe/ZA

Bayuquan/CN
Dalian/CN
Dashiqiao/CN
Zibo City/CN
Venkatapuram/IN

RHI

Board Members

Management Board of RHI AG
(from left to right):

Stefano Colombo
(since 6 June 2007)
Deputy Chief Executive Officer and Chief Financial Officer

Rudolf Payer
(since 6 June 2007)
Member of the Board;
responsible for Accounting, Taxes and IT

Andreas Meier
(since 15 January 2007)
Chief Executive Officer and Chairman of the Board

Manfred Hödl
(since 1 January 2007)
Member of the Board;
COO Industrial Division

Giorgio Cappelli
(since 1 January 2007)
Member of the Board;
COO Steel Division

Supervisory Board of RHI AG

Michael Gröller
Vienna, Austria
Chairman

Herbert Cordt
(since 1 June 2007)
Vienna, Austria
Deputy Chairman

Helmut Draxler
(since 1 June 2007)
Vienna, Austria
Deputy Chairman

Mark J. Eckhout
(since 1 June 2007)
St. Charles, USA

Hubert Gorbach
(since 1 June 2007)
Frastanz, Austria

Gerd Peskes
Düsseldorf, Germany

Stanislaus Prinz zu Sayn-Wittgenstein-Berleburg
Munich, Germany

Employee Representatives:
Martin Kowatsch
Radenthein, Austria

Leopold Miedl
Vienna, Austria

Franz Reiter
(since 18 January 2008)
Hochfilzen, Austria

Karl Wetzelhütter
Breitenau am Hochlantsch, Austria

Helmut Draxler, Vienna (until 14 January 2007) and Eduard Zehetner, Vienna (until 5 June 2007) also served on the RHI Management Board during the reporting period. Gerd Klaus Gregor, Vienna (until 1 June 2007), Cornelius Grupp, Lilienfeld (until 1 June 2007), Erhard Schaschl, Vienna (until 1 June 2007), Kurt Waniek, Vienna (until 1 June 2007) and Josef Horn, Trieben (employee representative until 31 December 2007) also served on the RHI Supervisoriy Board during the reporting period.

Foreword by the CEO

Ladies and Gentlemen,
Dear Shareholders,

In 2007, we can once again look back on a successful financial year for RHI, in which the positive development of the previous years continued seamlessly. In a globally good economic climate of our customer industries, we managed to grow above the industry average again recording an increase in revenues of more than 11%, although the US dollar weakened substantially against the euro. This shows that our customers honour our business model focusing on the high-quality segment. Both the Steel and Industrial Divisions have been able to capitalise on the increasing consolidation of our customer industries and to gain additional market share among globally operating key accounts as a reliable and competent partner. Based on our technology leadership we are in a position to offer refractories system solutions with the best price-performance ratio, thus enabling our customers to improve the value added in their production processes.

In addition to organic growth, the Business Unit Glass was strengthened substantially in 2007 as a result of the acquisition of all relevant assets of Monofrax Inc., the only producer of fused cast refractory products in North America. This has made RHI the world's largest independent supplier of refractory products for the glass industry. RHI also successfully commissioned its first production site in India, which is operated as a joint venture, in 2007 taking account of the rapidly growing Indian market.

In the raw material segment, the market development confirmed RHI's strategy of strengthening its own supply with raw materials through backward integration. In the past year, the focus was placed on a Chinese joint venture for magnesia and an investment project in South Africa. Both projects will be fully implemented in 2008 and raise the RHI Group's level of self-supply.

The operating performance, with an EBIT margin exceeding 11%, underscores that the quality of earnings did not fall short of the growth target. Our success in the financial year 2007 has encouraged us to continue along the path we have chosen, promoting profitable growth and expanding revenues from our refractories core competence to more than € 2 billion by the year 2010 through organic growth and targeted acquisitions, this way increasing our global market share to more than 15% and the EBIT margin to more than 12% due to the supply with our own raw materials.

At this point, I would like to thank our employees worldwide for their performance in 2007 on behalf of the entire Management Board. My thanks also go to our employee representatives for the constructive cooperation.

The balance sheet for 2007 shows positive equity again for the first time since 2001 and confirms the successful turnaround since the crisis which threatened the Group's very existence. In order to reduce financial liabilities further and with a view to our ambitious growth targets, the Management Board has decided to propose to the Annual General Meeting to carry forward the accumulated profit 2007 in its entirety.

2007 was marked not only by the positive development of our refractories core business but also by a significant change in RHI's shareholder structure. With the MS Private Foundation, whose beneficiaries are the entrepreneur Martin Schlaff and his family, RHI now has an Austrian core shareholder who holds more than 25% of the RHI shares and will hold up to 29.22% of the RHI shares if all RHI convertible bonds are converted. The MS Private Foundation considers its shares and convertible bonds a long-term investment and has stated on several occasions that it supports the growth strategy of RHI as world market leader in refractories. As a consequence, the composition of the Supervisory Board was changed at the Annual General Meeting and that of the Management Board at an extraordinary Supervisory Board meeting.

In the financial year 2008 it will be crucial to compensate the enormous price increases in raw materials and energy, while at the same time taking advantage of the growth opportunities in a more volatile environment. Business development and incoming orders have been positive in the first quarter of 2008 and confirm our expectations.

All the best!

Andreas Meier

Historical Overview

1834	Friedrich Ferdinand Didier founds the fireclay factory "Chamottefabrik F. Didier in Podejuch", Germany's first refractories producer;
1881	Carl Spaeter discovers a magnesite deposit in Veitsch, Austria, and establishes "Veitscher Magnesitwerke Actien-Gesellschaft" in 1899;
1908	Emil Winter acquires the mining rights in a magnesite deposit at Millstätter Alpe and establishes the "Austro-American Magnesite Company", later Radex Austria;
1919	Attilio Franchi, a pioneer in the iron and steel industry in Upper Italy, establishes mining operations on Lake Iseo near Brescia (Marone, Italy) and builds a plant for the production of sintered dolomite called "Dolomite Franchi";
1959/1960	At the location of the internationally renowned Mining University of Leoben, Austria, the research and development institute is established, today Technology Center Leoben;
1987	Radex Heraklith Industriebeteiligungs AG emerges from the American General Refractories Co. as a result of a management buyout. Following the successful IPO, Radex-Heraklith shares are admitted to trading on the Vienna Stock Exchange;
1993	The Company acquires a majority stake in Dolomite Franchi. Also in 1993, the two renowned Austrian refractories companies Veitscher Magnesitwerke Actien-Gesellschaft and Radex Austria AG merge to form Veitsch-Radex AG, today Veitsch-Radex GmbH & Co, a wholly-owned subsidiary of RHI;
1995	Radex Heraklith Industriebeteiligungs AG acquires a majority stake in Didier-Werke AG and establishes itself as the largest refractories producer in the world market;
1998	The company is renamed RHI AG;
1999	The leading market position is expanded further by the acquisition of a majority stake in the US company Global Industrial Technologies Inc. and the integration of its refractories company, Harbison-Walker;
2001	Economic problems in North America due to recession, steel crisis in the USA and, above all, soaring asbestos claims require a radical restructuring concept; complete deconsolidation of all US subsidiaries as of year-end 2001;
2002/2006	Complete reorganisation of the RHI Group as well as clear focus on refractories. Sale of all other business units (Engineering and Insulating). Acquisition of a stake in the refractories plant Clasil (India);
2007	Acquisition of the renowned refractories company Monofrax (USA) as well as complete takeover of Dolomite Franchi S.p.A. First steps towards finalisation of the US Chapter 11 proceedings with the Bankruptcy and District Courts;
2008	Conditional agreement regarding the acquisition of two Foseco plants.

Strategy and Business Model

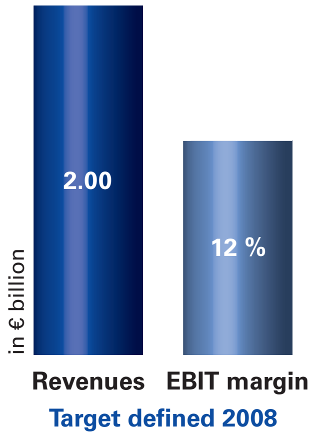
Definition of refractories

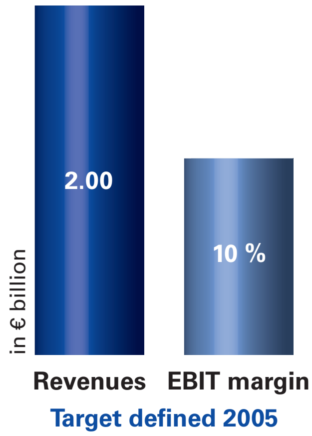
Most things we use in everyday life would not exist without refractories. Refractories are indispensable for the production of steel, cement, glass and a large number of other products which are manufactured in high-temperature processes. Depending on the application, durability ranges from a few hours in the steel industry to 11 months in the cement industry and up to 10 years in the glass industry. In addition to technical expertise and service, reliability in terms of quality and ability to deliver is the most important purchasing criterion for our customers.

RHI's strategy

The year 2007 was yet another chapter in RHI's success story, which showed positive equity again in its half-year figures 2007 for the first time since the restructuring in 2001. The improvement in all relevant financials is primarily attributable to the factors derived from the 2005 target to expand revenues to € 2,000 million by the year 2010 and to achieve an EBIT margin exceeding 10% and EBIT of more than € 200 million. As RHI is now in a position to supply its plants with its own raw materials from China, the target for the EBIT margin was raised from 10% to 12% in March 2008.

RHI targets for 2010 revised





Clear focus on core business refractories

To promote the expansion of technology and market leadership, RHI has adjusted management structures according to its customers and customer requirements and reports on the segments "Steel", "Industrial" and "Raw Materials/Production".

The Steel Division supports steel customers worldwide from five regionally responsible business units, enabling them to concentrate on their core processes through its product range and services. The Industrial Division comprises the cement, lime, glass, nonferrous metals, and environment, energy and chemicals industries. The Raw Materials/Production Division primarily supplies the other two divisions and controls the value added chain from mining to the finished product. The secure supply of high-grade raw materials remains a clearly defined goal for the future, ensuring that approx. 50% can be covered from the Group's own sources.

RHI is represented in the markets with the following product brands, which enjoy an excellent reputation in their respective segments.

Profitable growth

Worldwide presence

Globally operating customers require worldwide production, logistics, and service. In order to meet these challenges also in the emerging markets of Asia, the Near and Middle East, Russia and South America, RHI invested in strengthening its sales organisation and in further production capacity in China, India and South Africa in the reporting period. Organic revenue growth amounted to € 111.6 million or 8.4%.

Apart from opening up new markets and raw material sources, RHI's acquisition strategy also aims at expanding world market leadership further by the acquisition of competitors in the core business segments. In 2007, RHI acquired the assets of Monofrax, which produces fused cast products for the American glass market. In January 2008, an agreement to purchase two production plants in Scotland and the USA was concluded. They produce carbon-bonded ceramics and are currently operated by Foseco plc. This takeover is still subject to the approval by authorities, in particular anti-trust authorities in the USA and Europe.

Further improvement in the balance sheet structure

The Group's positive earnings development and the conversion of convertible bonds led to an improvement in equity from € -64.5 million at 31 December 2006 by € 160.1 million to € 95.6 million at 31 December 2007. Net financial liabilities amounted to € 398.7 million (previous year: € 419.7 million) and were reduced by roughly 60% since 2001.

In addition to the syndicated loan in the amount of € 400 million, which was agreed within the framework of the restructuring of the mezzanine capital and will be repaid in seven annual instalments beginning in 2007 and ending in 2013, further credit lines and funding options are available to enable the Group's growth.

RHI Share

Good start to the year

The stock exchange year 2007 was characterised by turbulence affecting both the RHI share and the ATX (Austrian Traded Index). In the first half of the year, good company results and strong demand for Austrian shares drove the Viennese market, with the ATX hitting its high of 4,981.87 points in July. The RHI share started the year at a price of € 38.69 and continued the positive development of 2006 in January 2007 until it reached its annual high of € 42.73 in May 2007.

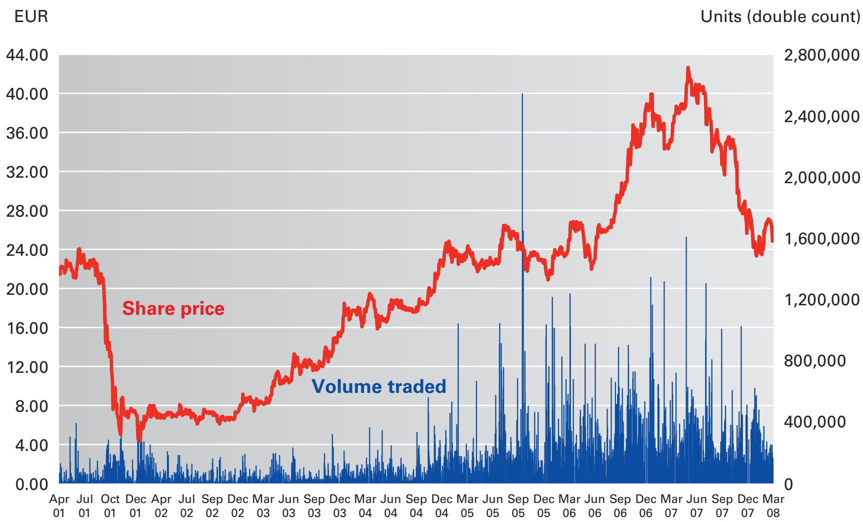
Subprime-crisis dominates financial markets

While the first signs of a subprime crisis in spring 2007 were considered an American problem, the European stock exchanges were also captivated by these developments by the summer. The closure of hedge funds and the losses of large international banks led to a regrouping to investments involving less risk in the capital market and a retreat of the world stock exchanges. The fear of more negative news gave rise to high volatility in the financial markets. Shares with high market capitalisation were preferred by investors. These developments led to a significant correction in the Viennese market, which the RHI share was unable to elude. In December, the share hit its annual low of € 25.69 and closed at € 28.00 at the end of the year.

Increased trading volume

The turnover of RHI shares traded on the Vienna Stock Exchange rose by approx. 25% in the reporting period and amounted to € 2,906 million. In the lead index ATX, RHI was weighted at 1.17% at year-end 2007, in the ATX Prime at 0.96%.

Performance of the RHI share 04/2001 – 03/2008



ISIN

RHI share:	AT0000676903
RHI new shares from conversion 2008:	AT0000A07RF3
Convertible bond tranche A:	AT0000443049
Convertible bond tranche B:	AT0000443056

New shares from the conversion of RHI convertible bonds which were issued between 1 January 2008 and the ex-dividend day of the RHI share initially receive a separate international securities identification number (ISIN). As of the ex-dividend day the new shares are merged with the existing RHI shares under the latter's ISIN.

RHI convertible bonds

421 convertible bonds yet to be converted

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.

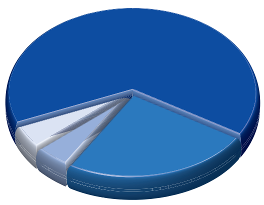
Furthermore, tranche B was issued with an identical nominal value of € 72.36 million, split into 1,809 convertible bond certificates with a nominal value of € 40,000, also maturing on 31 December 2009. Conversion of tranche B has been possible since 1 January 2003 at the beginning of each quarter and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

At 1 April 2008, a total of 3,197 of the 3,618 convertible bonds had been converted to 17,583,500 new RHI shares. The number of shares thus amounts to 37,503,539 at 1 April 2008. The complete conversion of all bonds will result in a total of 39,819,039 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

MS Private Foundation holds more than 25%

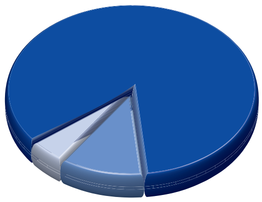


The MS Private Foundation ("MSPF") informed RHI on 11 January 2007 that it held 1,108,500 shares at the time, was entitled to acquire an additional 4,268,000 shares based on option agreements and also held convertible bonds of tranche A entitling it to the acquisition of an additional 6,259,000 shares of RHI AG. In March 2007, MSPF announced pursuant to §91 paragraph 1 of the Stock Exchange Act that it was holding voting rights exceeding 15% of the entire voting rights in RHI AG.

On 20 April 2007, MSPF declared conversion of 823 RHI convertible bonds tranche A into new RHI shares with effect from 11 May 2007. Following delivery of these 4,526,500 new RHI shares, the volume of RHI voting rights attributable to MSPF rose to more than 25%.

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.

Shareholder structure by country



84% Continental Europe
11% UK & Ireland
5% North America
RHI estimates

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.

Apart from MSPF, the AvW Group, Austria, and Dr. Wilhelm Winterstein, Germany, reported more than 5% of the RHI voting rights in accordance with the Stock Exchange Act.

Employee stock ownership plan

The employee stock ownership plan "4 plus 1", which was introduced worldwide in 2005, was continued in the year 2007 in all fully consolidated companies of RHI. 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 2007, 894 employees held RHI shares.

Profit appropriation

At the Annual General Meeting on 29 May 2008, the RHI Management Board will propose to carry forward the accumulated profit 2007 of RHI AG in its entirety in order to strengthen equity, reduce debt and to promote its ambitious growth targets. RHI's objective is to increase revenue to € 2.0 billion by 2010 through organic growth and targeted acquisitions, thus raising its world market share to over 15%.

Stock exchange indicators of the RHI share

in €	2007	2006	Change
Share price at year-end[1]	28.00	38.70	-27.6%
High[1]	42.73	38.98	9.6%
Low[1]	25.69	20.90	22.9%
Average[1]	36.16	27.37	32.1%
Number of shares (in million units)	37.45	27.08	38.3%
Stock exchange turnover (in million units)	79.61	84.43	-5.7%
Stock exchange turnover (in € million)	2,906	2,330	24.7%
Market capitalisation (in € million)[2]	1,049	1,048	0.1%

1) Closing price at Vienna Stock Exchange
2) at year-end

Investor Relations

Intensive investor activities

In the past financial year, RHI continued an intensive dialogue with the target groups of institutional investors, private investors and financial analysts. Hundreds of investors from all over the world were informed about the company's development and strategy at road shows, investor conferences and one-on-ones and telephone conferences.

In 2007, RHI was analysed by the following banks and investment companies (in alphabetical order): Berenberg Bank, CAIB, Cazenove, Deutsche Bank, Erste Bank, RCB, Sal Oppenheim.

All shareholders and capital market participants can contact the Investor Relations team for information. In accordance with the Corporate Governance Code, all current information and reports are also available on the Internet at www.rhi-ag.com.

Shareholder hotline:	+43 (0)50213-6123
Shareholder fax:	+43 (0)50213-6130
E-mail:	rhi@rhi-ag.com
Internet:	www.rhi-ag.com
Reuters:	RHIV.VI
Bloomberg:	RHI

Capital market calendar 2008

06 May 2008	Result Q1/2008
29 May 2008	RHI Annual General Meeting
31 July 2008	Half-year result 2008
30 October 2008	Result Q3/2008

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.

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 is currently in force 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 12 March 2008 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 two thirds 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

Auditing committee:
G. Peskes (finance expert)
M. Gröller
M.J. Eckhout
S. Prinz zu Sayn Wittgenstein-Berleburg
L. Miedl

Nomination committee:
M. Gröller
H. Cordt
H. Draxler
G. Peskes

Compensation committee:
M. Gröller
H. Cordt
H. Draxler
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 (capital representatives) 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 Code (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	AGM 2010
H. Cordt, Deputy Chairman	1 June 2007	AGM 2010
H. Draxler, Deputy Chairman	1 June 2007	AGM 2010
M. J. Eckhout	1 June 2007	AGM 2010
H. Gorbach	1 June 2007	AGM 2010
G. Peskes	1 July 1999	AGM 2009
S. Prinz zu Sayn-Wittgenstein-Berleburg	17 May 2001	AGM 2009

AGM = Annual General Meeting

In accordance with Figure 54 Corporate Governance Code, the members of the Supervisory Board shall, in the case of companies with a free float of more than 50%, include at least two independent members who are not shareholders with a stake of more than 10% or who represent such a shareholder's interests. RHI AG has declarations by Mr. Gröller and Mr. Peskes stating that they meet these criteria.

*) Note to figures 53, 54 + 58: Mr. Draxler is NOT an independent member of the Supervisory Board.

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 (ww.rhi-ag.com).

Figure 31 Corporate Governance Code (Recommendation):

<u>Wording of the Code:</u>
The compensation of the Management Board is to be reported separately.
<u>RHI's comment:</u> 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

RHI Performance Leadership Criteria

Based on the RHI mission statement published in 2006 and the RHI corporate values – power of innovation, openness, reliability – the RHI management team developed management principles ("Performance Leadership Criteria") in 2007, which will serve as an orientation for the expected leadership behaviour of all RHI managers in the future. The following RHI Performance Leadership Criteria were adopted:

1. Cultural variety & mobility
2. Interdepartmental thinking
3. Make decisions – bear the consequences
4. Be a role model
5. Challenge & promote

Employees

The success of the RHI Group largely depends on the competence and motivation of all employees. In order to adequately promote these two characteristics, extensive support programmes were implemented in close cooperation with employee representatives worldwide in 2007.

A wide variety of training ranged from refractories training over language courses to further development of social competence.

Within the framework of subsidised projects the company also trained young people who, due to physical disabilities, belong to disadvantaged employee groups. In Radenthein, Austria, nine disadvantaged young people were trained within a model project in the past year. Three of them were given regular employment contracts and fully integrated into operations.

Integrated Management System

In 2001, RHI implemented an Integrated Management System (IMS) merging existing quality management, environmental protection, safety-at-work and industrial health programmes. The global implementation of this system is currently in progress. The objectives are to simplify all processes by avoiding redundancies, to create clear structures and responsibilities in framework and process organisation, to improve legal security and to minimise potential risks for employees and the environment.

Quality management

Quality is of prime importance in production, services and all company processes. Production processes are constantly improved technically, as is infrastructure in and around quality assurance. All of RHI's locations worldwide are certified in accordance with ISO 9001:2000 by Lloyd's Register Quality Assurance Limited.

Environmental management

An important corporate goal of RHI AG is to consistently and continuously minimise direct and indirect environmental impact. The environmental compatibility and recyclability of products while and after being used by customers are increasingly becoming competitive criteria.

As certified environmental management systems were implemented, effectiveness in the use of raw materials, supplies, energy and transport improved continuously. The system for recording and evaluating environment-related data including logistics has accelerated key environmental improvements.

Certification in accordance with ISO 14001:2004 by Lloyd's Register Quality Assurance Limited covers more than two thirds of the locations and jobs at RHI. The environmental management system of the Mexican plants Tlalnepantla and Ramos Arizpe was certified in accordance with ISO 14000 and rated very good in the environmental assessment by PROFEPA (Mexican environmental authority).

Industrial health and safety

RHI's workplace health promotion is not based on individual campaigns but rather pursues a clear safety and health management keyed to the internationally recognised Luxembourg Declaration on Workplace Health Promotion and the RHI mission statement. Permanent improvement of standards far beyond legal requirements, gaugeable targets and their constant evaluation within the framework of long-term programmes are paramount. Work is healthy when it is experienced as useful and valuable. Social competence, personal responsibility, trust and networking are promoted, and managers are prepared as thoroughly for their leadership function as for qualification requirements in the area of health & safety.

"For a profitable future"

RHI's OPEX concept comprising proactive, sensitive, holistic, economic thinking and focus on potential as well as personal responsibility corresponds with the ambition to build future competence. For technical expertise alone is no longer sufficient, the same way that safety or health competence alone is not enough. It is only in combination with personal competence that the individual competences become effective. Therefore, RHI has chosen to take a new path of conveying future competence. The project was awarded one of eight European prizes by OSHA (Occupational Safety and Health Agency) in Bilbao in 2007. RHI is the only Austrian company to receive this award twice in the last five years. Another distinction was bestowed on the project when it was awarded the Austrian State Prize for Occupational Health and Safety of the Federal Ministry of Economics and Labour in August 2007.

The RHI production site in Trieben, Austria, was awarded the Styrian Health Prize "Fit in the Job" in 2007.

Project "Wide angle"

In this project, which is being implemented globally, apprentices are actively integrated in safety-at-work issues. Detecting, analysing and defusing hazardous situations at the workplace leads to a sustainable improvement in occupational safety seeing that the accident risk is highest among workers between 15 and 25 years of age.

Social & sponsoring projects

The following is a brief summary of only a few activities conducted in 2007 for the purpose of Corporate Citizenship:

On the occasion of the opening of the new RHI plant in Isithebe, South Africa, a long-term support programme for an AIDS project in "Mandeni area" was initiated in February 2008. A representative test among factory workers of the industrial complex of Isithebe showed an 88% HIV infection rate.

As early as 1962, RHI sponsored "House 4 – Veitsch" in the SOS Children's Village in Stübing, Austria. Following an overall refurbishment of the house in 2007, sponsorship of the "House Veitsch" was renewed.

In Wiesbaden, Germany, RHI sponsored a project supporting associations and organisations which attend to needy people in Wiesbaden and the surrounding region. One of the current projects is a fund to help children called "Help instead of violence".

The Radenthein plant enabled the development of a tourism project through its support. The so-called "Garnet Gorge", a 15-metre-long tunnel and cavern (to be used as an assembly room) is scheduled to be made accessible to the public in May 2008.

Research & Development

Based on systematic innovation management to explore the technical and legal requirements, RHI has managed to strengthen and expand technology leadership in refractory materials, products, solutions, and production processes, also with a view to economic and ecological responsibility. R&D regularly conducts hazardous substance assessments for both existing products and methods and the development of new products to prevent, as far as possible, the use of raw materials, binding agents and methods that are detrimental to the environment. In this context the work on REACH is particularly important. The use of new, ecologically compatible binding agents for carbon-bonded shaped products for the steel industry and the development of chrome-free products for the cement, steel and nonferrous metals industries are only two examples of many.

RHI's use of the group's own raw materials and the complete deposit use are prime examples of material efficiency and recovery. Based on geostatic models, only the really relevant areas of the deposits are addressed and mined. The sintering processes, in which raw magnesite is fired and, following additional treatment, separated into different qualities, allow the production of refractory products for diverse applications. Fines (causter, fines) accumulated during the entire process are used for applications in the chemicals industry, as slag conditioners or in the construction materials industry.

Special attention is placed on the continuous improvement in production methods, such as reducing scrap and enhancing process safety. Reduction of gaseous emissions and dusts is another important element. A process technology group has been established in R&D to ensure more systematic, project-type work on these issues. The rollout of a so-called process information and management system is currently underway worldwide. Its purpose is to enable prompt process optimisation within the RHI specialist network.

In the past years, specific consumption of refractories has declined drastically as a result of the development of products with higher durability and process improvements in the customer industries. This leads to a reduction in waste material removed from customers' kilns and to recycling in the refractories production process. R&D continuously develops recycling concepts for the recovery of such materials.

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, were completed positively at first instance in September and December 2007 with an approval of the plan of reorganisation and a confirmation of this plan. These enterprises 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 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, as soon as the decision has become final and has been implemented. Based on this contract, RHI has already received USD 60 million.

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. A substantial part of the claims against former RHI affiliates in the USA have therefore finally been settled. DII fulfilled its contractual obligations to RHI on 24 January 2005 with a payment of USD 10.0 million.

When the approval of the plan of reorganisation was confirmed on 18 December 2007, a 30-day appeal period began. Within this period, two insurance companies lodged appeals based on reasons which they had already argued without success in the first-instance proceedings. It is currently unclear when the appeals court will make a decision.

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.

Management Report

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.

RHI Group

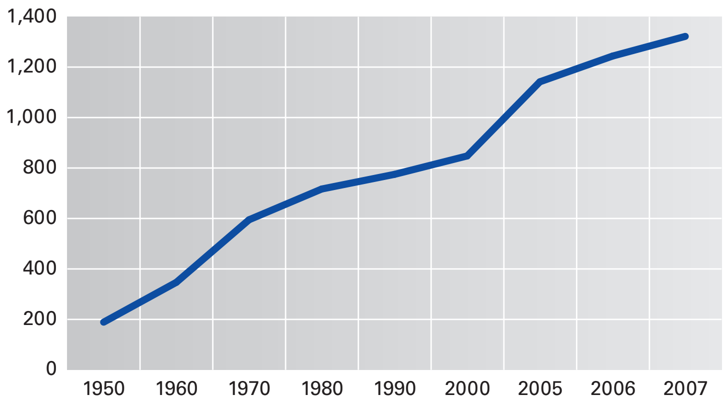
in € million	2007	2006	Change
Revenues	**1,485.8**	**1,335.8**	**11.2%**
Segment Steel	891.8	815.8	9.3%
Segment Industrial	536.6	463.2	15.8%
Segment Raw Materials/Production	977.1	884.7	10.4%
Consolidation	-919.7	-827.9	11.1%
EBITDA	**215.6**	**179.5**	**20.1%**
EBIT	**164.3**	**133.8**	**22.8%**
Segment Steel	82.7	68.3	21.1%
Segment Industrial	66.7	58.3	14.4%
Segment Raw Materials/Production	14.9	7.2	106.9%

Business development

Following growth of 4.9% in 2006, the world economy slowed down slightly in 2007. The forecast growth rate is now at 4.6%. The Asian region (without Japan) was clearly in the lead recording a two-digit growth rate. Despite rising raw material prices, increasing inflation triggered by the oil price, and the subprime crisis, no sustainable negative impact on the economy has been tangible to date.

Good development in the key client industries

The development of key customer industries of RHI was essentially in line with the general economic climate and therefore very positive in the financial year 2007. The company increased refractories sales volume by 9.5% to 2.01 million tonnes (previous year: 1.83 million tonnes), of which approx. two thirds were accounted for by the Steel Division. The following chart shows the development of world output in million tonnes of steel:



Source: IISI

The refractories industry also experienced a positive year 2007. Output rose to a record level, with Asia/Pacific accounting for more than 60%. This region has trebled its production volume since 2001. In this context it must be noted that the market that RHI defines as relevant starts at 1,200 °C.

Revenue and Earnings

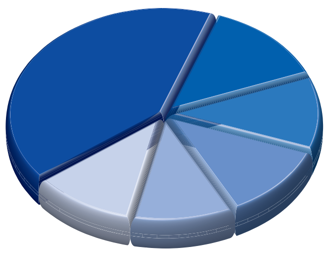
Revenue in the RHI Group was up 11.2% to € 1,485.8 million in 2007 (previous year € 1.335,8 million). It can generally be stated that revenues shifted from Western Europe to other strategically important markets in 2007. The share in total revenues was 35% after 37% in the year 2006. Sales volume increased in all customer industries and markets. Only in North America was a decline recorded compared to 2006 due to the ongoing weakness of the steel industry.

60% of the Group's revenues is accounted for by the Steel Division, 36% by the Industrial Division and 4% by the Raw Materials/Production Division. Here, revenue in the amount of € 18.2 million (previous year: € 18.2 million) of Isolit-Isolier GmbH, RHI's only non-refractories company, is included.

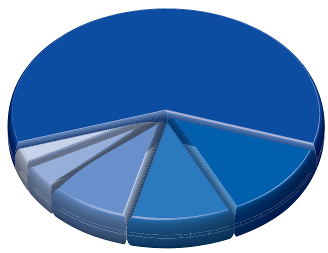
Due to declining domestic demand, the production facility in Lota, Chile, was closed down in 2007, giving rise to non-recurring expenses in the amount of € 3.0 million.

Despite the weak US dollar and rising raw material, energy and transport costs, RHI increased EBIT by 22.8% to € 164.3 million (previous year € 133.8 million). The EBIT margin rose to 11.1% (previous year: 10.0%) as a result of the positive business development. This is the highest EBIT margin the Group ever recorded in a financial year.

Refractories revenues by region and industry



35% Western Europe
15% Africa, Near/Middle East
13% North America
13% Eastern Europe
12% Asia/Pacific
12% Central/South America



60% Steel
13% Cement & Lime
11% Glass
9% Non ferrous metals
4% Raw materials
3% Environment, energy, chemicals

Acquisitions and investments determine negative cash flow

At € 154.8 million in 2007, cash flow from operating activities clearly exceeded that of continuing operations in 2006.

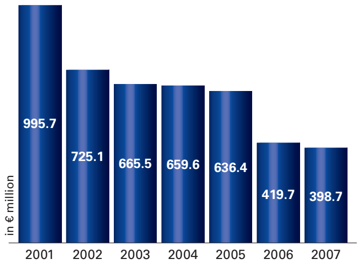
Cash flow from investing activities amounted to € -103.7 million in 2007 (previous year: € 177.9 million), reflecting the acquisition of Monofrax and the complete takeover of Dolomite Franchi S.p.a. Capital expenditure, at € -78.8 million, exceeded the prior-year figure of € -51.8 million, and was primarily related to investments in China and South Africa.

Cash flow from financing activities amounted to € -82.1 million in 2007 (previous year: € -205.0 million) and predominantly consisted of loan repayments and interest payments.

RHI Group: Cash flow

in € million	2007	2006	Change
Continuing operations			
Cash flow from operating activities	154.8	50.9	204.1%
Cash flow from investing activities	-103.7	177.9	-158.3%
Cash flow from financing activities	-82.1	-205.0	60.0%
Cash flow from continuing operations	-31.0	23.8	-230.3%
Cash flow from discontinued operations	0.0	3.9	

Development of net financial liabilities



The consolidated balance sheet at 31 December 2007 shows financial liabilities of € 433.7 million; less cash and cash equivalents of € 35.0 million net financial liabilities equalled € 398.7 million (previous year: € 419.7 million).

Net financial liabilities, which were reduced further compared to 2006 correspond to the 1.8-fold EBITDA (previous year: 2.3-fold) of the Group in 2007 and allow RHI to grow further while liquidity is contractually secured in the long term.

The deterioration of the financial result is due to the interest expense for the mezzanine capital of € 400 million, which was converted to a bank loan at the end of 2006. This resulted in interest in line with market rates for the entire year; the first repayment in the amount of € 57.1 million was due at year-end 2007.

At 31 December 2007, credit lines amounting to approx. € 600 million were available to the RHI Group.

RHI Group: Income statement

in € million	2007	2006	Change
Continuing operations			
Revenues	1,485.8	1,335.8	11.2%
EBITDA	215.6	179.5	20.1%
EBIT	164.3	133.8	22.8%
Financial results	-39.2	-25.0	-56.8%
Results from associates	1.4	1.6	-12.5%
Profit before income taxes	126.5	110.4	14.6%
Income tax	-15.5	-13.3	-16.5%
Profit for the year from continuing operations	111.0	97.1	14.3%
Profit for the year from discontinued operations	0.0	60.8	
Profit for the year	111.0	157.9	-29.7%
Profit attributable to minority interest	1.6	2.9	-44.8%
Profit attributable to equity holders of RHI AG	109.4	155.0	-29.4%
Basic earnings per share (in €)	3.06	3.53	-13.3%
Diluted earnings per share (in €)	2.77	2.48	11.7%

Profit Development and Balance Sheet Structure

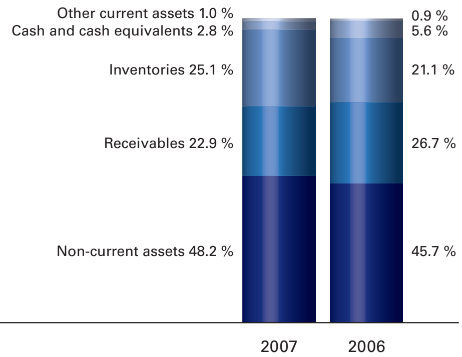
Substantial increase in profit in 2007

Profit before income taxes in the RHI Group was up 14.6% to € 126.5 million in 2007 (previous year: € 110.4 million). The tax rate in the reporting period, at 12.3%, slightly exceeded the prior-year figure of 12.0%. Profit of the RHI Group thus amounted to € 111.0 million. At 31 December 2006, profit was € 157.9 million and included the profit from discontinued operations (Insulating) in the amount of € 60.8 million.

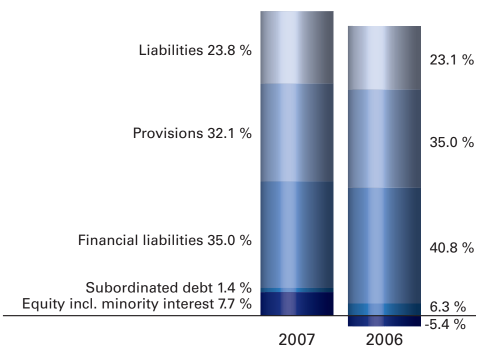
Profit attributable to minority interest amounted to € 1.6 million in 2007 (previous year: € 2.9 million); profit attributable to the equity holders of RHI AG thus equalled € 109.4 million (previous year: € 155.0 million). Basic earnings per share based on the average number of shares of RHI AG issued in 2007 amounted to € 3.06 (previous year: € 3.53); including all potential shares from the RHI convertible bonds, diluted earnings per share were € 2.77 (previous year: € 2.48).

Balance sheet structure

ASSETS

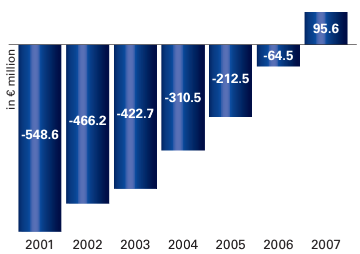


EQUITY AND LIABILITIES



The balance sheet total increased in comparison with the previous year above all due to the acquisition of Monofrax, investments in raw material supply and the increase in working capital by 4% to € 1,240.3 million related to the expansion of business. As customary in the industry, RHI's balance sheet structure is characterised by a relatively high capitalisation ratio and a long-term financing component.

Equity development since 2001



Due to the strong earnings situation the company recorded positive equity amounting to € 95.6 million 2007. Equity had been negative since 2001, even when including the subordinated mezzanine capital, due to the required restructuring measures. At the end of 2006, the subordinated mezzanine capital was restructured in a syndicated loan which must be repaid by the end of 2013. The capital restructuring measures also included subordinated convertible bonds issued in 2002. At 31 December 2007, the consolidated balance sheet shows subordinated debt from convertible bonds in the amount of € 17.2 million (previous year: € 75.5 million). Conversion is possible until 31 December 2009.

Steel Division

Trends in the steel industry continue

A substantial increase in output and the intensified globalisation process were key factors in the steel industry again in 2007. Worldwide, production was up 7.3%, with growth in China amounting to 15.3%. In addition, consolidation in the steel industry progressed further. In early 2007, India-based Tata Steel acquired the British-Dutch Corus Group, the second largest takeover in the steel segment. Swedish SSAB Svenskt Staal AB took over the Canadian IPSCO, and in Austria Voestalpine AG took over Böhler-Uddeholm AG. Thanks to its globally operating key-account management the Steel Division was prepared for the changes affecting these customers.

The year 2007 saw soaring ore and transport costs as well as a persistent increase in energy prices in the steel industry. The situation on the refractories market was also massively influenced by price increases for raw materials, an increase in the Chinese export tax on numerous raw materials for refractory products and the shortage of the volume of raw materials available on the market. The higher energy and transport costs affected not only steel manufacturers, but also their suppliers, including RHI.

Despite this tense situation in the raw material market and ongoing fierce competition, RHI strengthened its position in the market and improved its results further.

Refractories deliveries and services for steel customers contributed € 891.8 million (previous year: € 815.8 million), or 60% (previous year: 61%), to RHI's consolidated revenues in 2007. The increase in revenue by 9.3% reflects the good overall production development in the steel segment and RHI's gains in market share. Due to quantity and price effects, as well as active cost management, the Steel Division's EBIT rose by 21.1% to € 82.7 million (previous year: € 68.3 million); the EBIT-margin improved to 9.3% (previous year: 8.4%).

Segment key figures

in € million	2007	2006	Change
Revenues	891.8	815.8	9.3%
EBIT	82.7	68.3	21.1%
EBIT margin	9.3%	8.4%	10.7%

Thanks to its partner Stopinc, RHI increased its market share in the area of slide gates and concluded further contracts for the isostatic products of the new plant in Dalian (China) in 2007. In 2008, RHI will increase its presence in the market of isostatic products for continuous casting. Therefore investments in both research and production in this segment will be increased.

Moreover, the sales and marketing structure was strengthened in 2007 by integrating technically experienced metallurgists in order to increasingly become the partner in refractories for our customers. This measure has led to a higher number of FLS contracts (Full Line Services) and an increase in contracts based on cost per tonne of steel. In addition to the resulting improvement in results on both sides, the steel manufacturers were able to focus on their core competencies.

Western Europe

Steel output in Western Europe was up 1.4% on the previous year. At a production level that was very high in general, countries such as Germany and Spain in particular contributed to an increase in steel output. Revenues of the Steel Division grew 6.5% in the reporting period, significantly exceeding market growth, in spite of the fact that RHI, as the market leader, already holds a considerable share in the market.

This success is all the more important as about a third of RHI's total steel revenues is generated in this core market, and yet the significance of this region declined from an overall point of view of the Steel Division.

The revenue growth in Western Europe shows that the strategy of individual solutions to increase customer benefits has been successful.

Eastern Europe

Steel production in Eastern Europe was up 2%. Here it was especially Poland that experienced substantial growth. RHI increased revenue significantly in this market and grew by 21.1% in this area. This region has thus continued to gain significance for the Steel Division.

The expansion of the market position is carried by the successful establishment of local service segments and a strong market presence. The opening of regional offices in Moscow and the Ukraine has shown the planned positive consequences. Sustainable market penetration is complemented by first-class product and application concepts, which are targeted at customers and meet their specific needs.

Africa, Near/Middle East

The region Africa, Near/Middle East recorded a remarkable 6.1% increase in steel output, which was enabled by major investments and the commissioning of new plants. The markets of Saudi Arabia, Morocco and Turkey stand out with two-digit growth rates in steel manufacturing.

With an increase in revenue by 13.9%, the Steel Division achieved above-average growth also in these markets, which now contribute approx. 15% to revenues in the Steel Division.

Market success was accomplished in gunning repairs of customers' aggregates and in gas purging as a result of the package solutions offered, which include the elements machinery, services and refractories.

Central and South America

Steel production in Latin America was up 6.2%. New business opportunities arose as a result of the consolidation among important steel customers, especially for FLS and CB (Contract Business) in several South American countries. In this region, growth of the Steel Division, at 8.1%, exceeds that of customer industries.

North America

2007 was a year full of challenges for the steel industry and its suppliers in North America. Following a slow start – at mid-year steel output was still 4% short of the prior-year figure – steel production recovered during the second half of the year and closed the year 2007 1% below the production level of the previous year. In this difficult market environment, RHI placed the focus on marketing higher-grade system solutions and higher-margin refractories packages in North America. The flow control segment in particular benefited from RHI's technology leadership in slide gate systems (slide gates, systems, ladle and tundish) and achieved remarkable success. Important contracts were concluded for our plants which produce isostatic products.

Asia/Pacific

In 2007, the Asia/Pacific region, with the key markets India and China, was once again the centre of the global development of the steel industry with a growth rate of 11.5%. Overall, revenues of the Steel Division rose by 23.3% in this region.

Steel output in India maintained a very high level. Good capacity utilisation, the trend towards high-grade steel as well as the steel mill projects that have been initiated raise the potential for high-grade refractory materials in India. For these reasons and thanks to the commissioning of the new RHI Clasil plant and a strengthened sales organisation, RHI increased revenue in India in comparison with 2006.

In the other emerging countries in Asia, RHI also gained market share in individual segments and profitability was up on the previous year.

In China, the year 2007 was characterised by another significant increase in production volume. A total output of nearly 490 million tonnes of steel corresponded to a year-on-year increase of approx. 15%.

There are overcapacities in the steel and refractories industries in China and production is still highly fragmented. Therefore, competition and pressure on prices continue unabated. RHI is well positioned for the enormous sales volume potential in China with its local production at three plants. This is why the Steel Division currently only focuses on the economically attractive high-grade market segments and customers, who can already optimise their production processes technically and economically based on RHI solutions. RHI raised revenue significantly in this emerging market and extended its market share in 2007. The market development is based almost exclusively on products made in China, and starting in 2008, raw materials will be added when the new raw material plant is opened in the Liaoning province. This will provide security in terms of both quality and supply in the long term.

Industrial Division

A record year for the Industrial Division

Refractories deliveries and services of the Industrial Division with the Business Units Cement & Lime, Nonferrous Metals, Glass and Environment, Energy, Chemicals contributed € 536.6 million (previous year: € 463,2 million), i.e. 36% (previous year: 35%), to RHI's consolidated revenues. On the one hand, the increase results from the consolidation of RHI Monofrax (February 2007); on the other hand, it is attributable to a further strengthening of the market position. EBIT of the Industrial Division was up 14.4% to € 66.7 million (previous year: € 58.3 million); the EBIT margin declined to 12.4% (previous year: 12.6%).

Segment key figures

in € million	2007	2006	Change
Revenues	536.6	463.2	15.8%
EBIT	66.7	58.3	14.4%
EBIT margin	12.4%	12.6%	-1.6%

All Industrial Business Units support their markets worldwide and serve globally operating customers from one source. The rapidly advancing consolidation of customer markets and the pressure on availability of aggregates benefit reliable partners. RHI is recognised in the markets as a partner that offers both high-grade refractory systems and potential solutions to problems.

RHI's position as technology leader was confirmed by the positive market share development in 2007 and will remain the driving force of the Industrial Division's success in the future.

Cement & Lime

Revenues and sales volume of the Cement & Lime Business Unit increased further in 2007, which was not least due to very successful project business. Overall, the West European cement industry experienced good capacity utilisation in the year 2007, although the positive signs of a significant economic recovery in Germany at the beginning of the year did not persist. However, individual aggregates were rebuilt in Austria and Germany in order to increase their performance. Investment activities in new construction were low in the rest of Western Europe. This was offset by RHI's good position in recurring business with wear material, which was maintained in 2007.

In Eastern Europe and Russia, RHI managed to gain market share. This was attributable to the clear edge in technology as well as the reliability and reputation of the full-range supplier RHI. The positive business development of 2006 was not sustained in Central and South America as cement exports from Mexico to the USA declined reflecting the effect of the real estate crisis in the USA. The construction of new cement plants in Mexico, which were lined with RHI refractories, partly compensated this development.

In South East Asia, products from RHI's plants in China were established in particular in the Philippines and Indonesia. The positive trend in China continued. In 2007, RHI managed to conclude business deals with Chinese manufacturers of new plants for the first time.

Business with new plants in the Near and Middle East was maintained at a high level.

In the lime segment, revenue rose substantially again compared to 2006. Extension of capacity utilisation in Western and Eastern Europe as well as Central America strengthened project business sustainably and increased the market share of RHI AG in the lime industry. Package business, i.e. material plus installation, was extended significantly in particular in the Western European market. RHI also managed to enter the difficult market of the CIS with several projects in 2007. The competitive situation in the important future markets China and India is still to be considered very tense. Nevertheless, RHI managed to clearly position the RHI brand as the technology leader with the end customer in 2007 and to promote the market entry successfully.

Nonferrous metals

Nonferrous metals business was characterised by both major repairs and new projects in 2007. As the price of nickel temporarily hit an all-time high, projects were promoted and started much earlier than planned. In the copper industry, several projects were postponed due to significant price fluctuations. Yet, RHI gained market share in the copper business and in drop shipping as a result of unscheduled major repairs.

In the aluminium sector, market share gains were recorded in the booming market around the Persian Gulf.

Generally, capacity utilisation of metallurgical plants was high as in the previous year; however, a greater number and larger-scale repairs were carried out in 2007 than previously.

An extension of the services provided, in particular in the areas of process technology, computer simulation and the design of customised refractories concepts for key aggregates guarantee an added value in the process of our customers, which strengthened RHI's market leadership in the nonferrous metals industry.

As the consolidation process in the nonferrous metals industry is advancing, customers increasingly require a reliable, technologically sophisticated and globally operating partner in the refractories segment, with our ability to provide geographically flexible delivery being increasingly appreciated. The recognised technology leadership and the reliably high product quality of RHI refractories solutions guarantee our customers highest availability of their production facilities.

In 2007, sales volume and revenue in the Nonferrous Metals Business Unit retained the high level of the previous year, with the contribution to earnings slightly exceeding the prior-year figure despite higher raw material prices and adverse effects of foreign currency exchange rates.

Glass

The glass market experienced a positive development in 2007, to which all segments, i.e. container, flat and special glass, contributed. In addition, a large number of tank repairs gave rise to a significant increase in the demand for refractories in 2007.

The container glass segment grew moderately despite increasing competition by cans and plastic packaging. Moreover, massive investment activities in container tanks were to be observed in individual regions such as Mexico, proving the persistently high significance of glass as a packaging medium.

As in previous years, the flat glass segment recorded above-average growth in 2007. This development was driven by flat glass producers in China and the four major globally operating float glass manufacturers who meet the growing demand for window and automotive glass by investing in strategically important regions. Due to the ongoing growth in the photovoltaic sector, demand for flat glass is expected to increase further in the near future.

The special glass segment was characterised by the negative development in the traditional TV business again in 2007. In Asia, further TV glass factories were closed down. However, all other segments, in particular TFT glass capacities, experienced a significant increase.

One of the focal points of the Glass Business Unit in 2007 was the integration of the sales and marketing activities of RHI Monofrax. The addition of strategically important products such as α/β-alumina and high zirconia fused cast to the product portfolio and increased AZS capacity resulted in new, additional potential. Based on this market position and the refractories expertise of RHI Glas, which is acknowledged worldwide, customer relations were further intensified. 2007 has been the most successful year of the Business Unit Glass to date.

In the growth regions of Asia and Eastern Europe, RHI Glas continued to improve its position through increased market presence, thus ensuring that RHI will participate in the expected higher demand for high-grade refractory products.

Environment, energy, chemicals

The market in the environment, energy, chemicals sector showed varied developments in 2007. The environmental technology segment benefited from stricter requirements and standards for the environmental compatibility of industrial plants worldwide. We expanded our market share in this segment in particular in Asia as a result of the construction of new plants. The energy sector, which is still based on fossil fuels to a very large extent, is suffering from increasingly intensive discussions regarding CO_2 emissions. For this reason, traditional power station projects were postponed or cancelled completely. Technologies for renewable raw materials in turn developed positively. In this segment, the number of new plants based on renewable raw materials rose substantially.

The development of the chemicals/petrochemicals market was very positive. The high oil price and increasing demand provided a good investment climate. The focal points in 2007 included new gas processing plants in the Middle East as well as oil sand processing plants in Western Canada. This led to the best result to date in this segment.

The level of innovation and the high, consistent quality of our products, coupled with our engineering know-how in the construction of new plants, make RHI a reliable partner. In the future, it will be important to emphasise this strength further. The contribution to earnings by the Environment, Energy, Chemicals Business Unit was increased again in 2007.

Raw Materials/Production Division

Revenue in the Raw Materials/Production Division totalled € 977.1 million in 2007 (previous year: € 884.7 million), of which € 919.7 million (previous year: € 827.9 million) were accounted for by deliveries to the RHI Group and € 57.4 million (previous year: € 56.8 million) to external customers. EBIT of the Raw Materials/Production Division amounted to € 14.9 million (previous year € 7.2 million) and the EBIT margin improved to 1.5% (previous year: 0.8%).

Segment key figures

in € million	2007	2006	Change
Revenues	977.1	884.7	10.4%
EBIT	14.9	7.2	106.9%
EBIT margin	1.5%	0.8%	87.5%

As a result of increases in revenue and sales volume in the Steel and Industrial Divisions, demand for raw materials rose yet again in 2007. The situation in the raw material market was characterised by a tense supply situation and deteriorating quality of raw materials in 2007. At the same time, prices soared, particularly for raw materials in China. This price increase was caused by the introduction of an export tax, rising prices in China, limited and thus increasingly expensive export licenses, abolition of VAT refunds and growing transport costs.

This trend will persist in 2008, as export taxes were raised again as of 1 January 2008, the number of export licenses was reduced and transport costs continue to rise. In view of this development and increasing energy costs, prices of high-grade raw materials can generally be expected to rise further.

RHI's own raw material plants in Austria, Italy and Turkey produced at full capacity in 2007, thus making an important contribution to RHI's supply with raw materials.

New smelter in South Africa

The strategy to strengthen the Group's supply with raw materials through backward integration was pursued consistently in 2007 by commissioning a smelting plant in Isithebe, South Africa. Two electric arc furnaces were installed; they were commissioned in late 2007 and will produce 30,000 tonnes of high-grade melting raw materials in the future.

At the same time, the project of a raw material plant in China made progress. Construction began in April 2007, and the foundation and parts of the buildings were finished by the end of 2007. The plant will be commissioned in the second quarter of 2008 and the production of magnesia specialities will be launched. As a second step, the production of high-grade sintered magnesia will follow in the fourth quarter. RHI will then be in a position to use an additional 130,000 tonnes per year of its own high-grade raw materials for the production of refractories.

The manufacture of finished products was increased further in 2007. Apart from very few exceptions, all plants enjoyed excellent capacity utilisation and produced at record levels.

The following investments were made in 2007 to upgrade the production facilities consistently:

>> Completion of optimisation of the production line for non-basic fired bricks in Tlalnepantla, Mexico;

>> Installation of a production line for non-basic high-quality bricks in Mainzlar, Germany;
>> Commissioning of the world's highest-performance press for refractory bricks at the Veitsch plant, Austria;
>> Commissioning of a second tunnel kiln in Dalian, China;
>> Start of the project second tunnel kiln at our plant in India.

The project Operations Excellence (OPEX) was continued and implemented according to schedule in 2007. The focus was placed on training employees in and introducing them to the process-oriented organisation of plants, which is to improve productivity and utilisation further and expand quality and technology leadership.

At the end of the year, a plant in Chile (Lota) was closed as both plants in Chile suffered from low capacity utilisation due to a decline in domestic demand. In the future, the entire product range will be concentrated at the Santiago location, thus making better use of the economies of scale.

Environment

The production of refractories is energy-intensive and involves emissions. RHI undertakes great efforts to ensure the protection of resources and highest energy efficiency in production. Great importance is attached to recycling. A separate department is in charge of the recycling of used bricks in production.

Energy efficiency increased consistently

In order to retain the high level of energy efficiency – RHI holds one of the top ranks in international comparison – the plants are cyclically subjected to energy efficiency programmes. All energy consumption sources are examined in detail by experts and optimised. Despite the high energy efficiency of the plants, thermal and electric energy savings of more than 5% were achieved. In addition, RHI is leading new developments in order to optimise total energy consumption. In addition to a heat recovery plant, a low-temperature power plant using the waste heat of tunnel kilns is being set up in Radenthein, Austria. This plant covers more than 50% of the power consumption of the entire brick factory, a technology that represents an innovation in the refractories industry.

Working groups consisting of specialists from R&D, engineering and production have been set up to reduce the inevitable emissions to a minimum. Process steps are modified in such a way that emissions are prevented when they are created or they are reduced in the process. Raw materials and additives are used in accordance with ecological criteria if economically justifiable (ecodesign). This enables us to do without post-treatment purification plants in many areas, which is an overall advantage both economically and ecologically because such plants can only be operated at high cost and energy consumption.

The environmental management system of the Ramos Arizpe plant in Mexico was certified in accordance with ISO 14000 and rated very good in the environmental assessment by PROFEPA (Mexican environmental authority).

Revenue and Earnings Outlook

Positive outlook

RHI has a positive outlook on the year 2008 despite some existing risks in the world economy – the Management of RHI sees risks above all in increasing raw material prices, energy and transport costs and the development of the US dollar.

Following the good business development in 2007, incoming orders in early 2008 slightly exceed the level of the previous year once again.

Secure supply with own raw materials

The focus on core business and the related investments in the emerging markets of India, China and South Africa will ensure competitiveness in terms of costs and raw material supply. The new raw material plant in China will provide high-grade sintered magnesia from the fourth quarter of 2008 and will secure the Group's self-supply level of approx. 50%.

Due to the generally strong growth in threshold countries, a further shift in revenue away from Western Europe towards these strategically important markets is expected in 2008.

"Operations Excellence", a reorganisation project started in 2006, will be a focus at the core production sites in the year 2008. The objective of this project is to further enhance productivity and capacity utilisation, and to secure quality and technology leadership worldwide on the basis of a process-oriented organisation.

Vertical integration, RHI's global presence as well as its available capacities should enable us to raise prices again to offset further price increases.

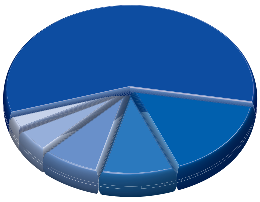
The acquisition of Monofrax in the glass segment in the financial year 2007 and the acquisition of two Foseco plants (Scotland, USA) in the flow control segment, which is yet to approved by the anti-trust authorities, will strengthen RHI's market position considerably in the USA.

Further growth through acquisition

The company expects the consolidation process in the refractories industry, which started in recent years, to continue. In order to defend the position of the world market leader in the future, RHI will consistently examine and use opportunities for sensible acquisitions in the raw material segment and in the core production areas in 2008.

Employees

Employees by region



RHI's growth strategy is also reflected in the number of employees, which rose from 6,526 to 7,305 in 2007.

The internationality of the employees is also growing as a result of the acquisitions realised and the further expansion of our plants in Asia. 58% of the employees working for fully consolidated companies of the RHI Group in 2007 were employed in Western Europe, 16% in Asia, 10% in North America, 8% in Central and South America, 5% in Africa and 3% in Eastern Europe.

Taking account of the existing shortage of skilled workers, RHI trains young people at nearly all of its locations. In many cases the apprentices receive additional training at RHI's own apprentice workshops. RHI attaches great importance to not only providing young people with technical training but to also helping them develop their personality. Consistent and continuous education and further training will secure experienced and highly motivated staff for RHI in the future.

Personnel development

The focus of personnel development was once again placed on a further internationalisation of personnel development programmes in 2007. In China, the first training cycles were completed successfully, and the programme was also launched in Latin America. To achieve the targeted growth of RHI it will be necessary to have access to the largest possible number of qualified and experienced managers worldwide. RHI thus underlines its role as an attractive and preferred employer of qualified employees.

The high qualification, motivation and commitment as well as identification of employees with the objectives and values of RHI were impressively proven by the fourth place in the election of Austria's most attractive employer. Internationally, we are also on track to qualify as the preferred employer in our industry and in the respective regions.

Performance & Leadership Criteria

The leadership principles for RHI managers, which were developed in 2007, are to contribute to developing our strong corporate culture further in a global environment. Modern personnel tools support us in this task.

RHI key personnel figures

	2007	2006	Change
Revenues in € million	1,485.8	1,335.8	11.2%
Personnel expenses in € million	325.5	295.5	10.2%
Average annual number of employees	7,305	6,526	11.9%
Number of employees at 31.12.	7,363	6,650	10.7%
Personnel expenses in % of revenue	21.9	22.1	-1.0%
Personnel expenses per employee in € 1,000	44.6	45.3	-1.6%

Research & Development

Cornerstone of our power of innovation

In order for RHI to continue to expand its global technology leadership, R&D has to assume responsibility on the basis of the RHI values – power of innovation, openness and reliability – and to consciously take these principles into account for both short-term developments and all strategic decisions. Systematic R&D is a significant factor in RHI's power of innovation. R&D plays an active role in designing the innovation culture and involves all stakeholders in R&D processes, i.e. external and internal customers. In addition, openness causes R&D to constantly search for new refractories ideas and potential for customers and their processes. Reliability means that R&D carries out projects effectively and efficiently, completes them in time and persistently sounds out new, interesting R&D areas within RHI's strategy. This way, the innovation process will also be tangible as an RHI core process for all customers in the future.

Sustainable R&D strategy

The R&D strategy is developed in keeping with the strategy of RHI and the divisional strategies of the Steel and Industrial Divisions and their business units based on customer requirements. In addition, R&D pursues long-term issues in which RHI has traditionally invested resources and funds and which develop the core competencies further. Special attention is attached to the development of new, RHI-owned raw materials and the development of new products under special consideration of the impact on the environment (RHI and customer processes). As a result, the main R&D objectives are:

>> Development of RHI-specific raw materials;
>> Development of new basic refractory materials for Steel and Industrial;
>> Improvement of the production processes for refractory products and raw materials;
>> Machinery to process refractory products;
>> Sensors for use with and in refractory construction materials;
>> Simulation calculations for the development of basic materials, production processes of customers and RHI as well as the design of products, especially for the flow control segment;
>> Work on fundamental issues of thermal mechanics, thermal chemistry and the use of new simulation methods;
>> Reduction of effects on the environment in the production and application of refractory raw materials and products.

R&D exercises an important function within the framework of technology transfer and technological integration for the acquisitions RHI Clasil in India and RHI Monofrax in the USA, which special departments of R&D are in charge of. In addition, the R&D raw material development department successfully accompanies the establishment of the electric arc furnace for raw materials in South Africa and the raw material joint venture in China as well as the commissioning of the second tunnel kiln in Dalian in accordance with the project targets.

Another important task of R&D is the active management of intellectual property in the form of patents, trademarks and securing know-how within the framework of the acquisitions made. In 2007, RHI's patent portfolio was strengthened by new patents registered in the areas of product formulation, product geometry and product use.

R&D performance 2007

These are only a few examples of more than 100 successfully completed R&D projects in 2007:

>> A new series of magnesia carbon bricks is used successfully in steel lades that are subject to high thermo-mechanical wear.
>> New magnesia chromite bricks on the basis of our own fused raw materials used in steel degassing plants underscored our technology leadership in this segment.
>> A new bonding system was developed for slide gate ceramics, and very flexible structures were manufactured using our own new, tailor-made raw materials.
>> Special complex shapes of fused cast high zirconia materials and a new fused cast high zirconia material with reduced conductivity for the production of TFT glass is already being delivered as a standard product.
>> A process information and management system to enable better optimisation of refractories production processes was installed; it is currently in the worldwide rollout phase.
>> The development of a new substance on the basis of zirconium oxide for the lining of safety tanks for latest-generation nuclear power stations was completed and the first delivery was accepted.
>> In the area of corrosion simulation, it is now possible to simulate wear processes and integrate them into product development more rapidly using new software tools and RHI's own data base.
>> The development of simulation tools allows the increasingly important optimisation of energy through refractory basic materials in customer processes in the nonferrous metals and steel industries.
>> Following successful development, micro-porous high-performance ceramic materials are now used in practice by glass customers.
>> All data of substances used were subject to an inventory in 2007 to prepare RHI for their registration (REACH).
>> Together with the University of Leoben, work on thermo-mechanical behaviour, new test procedures, the corrosion behaviour of refractory construction materials, electrochemistry and simulation (CFD, FEM, process simulation) were completed or continued successfully.

Investment in power of innovation

As in previous years, investments made in the reporting period 2007 amounted to slightly more than 1.0% of revenue and lie in the range of R&D expenses of the steel industry, the nonferrous metals industry and the cement industry.

Nearly 150 experts at the Technology Center Leoben and RHI's plants are today responsible for a customer-oriented R&D process. They are embedded in a global network of interdisciplinary teams, which work on the challenges in refractories with great flexibility and commitment and together turn ideas into innovations for RHI's customers.

R&D is a fundamental pillar in refractories training, thus also serving as a basis for the development of employees for other business units. In recent years, RHI has positioned itself in a leading role training refractories engineers within an international network supported by refractories customers, suppliers, manufacturers and refractories departments at universities.

Risk Management

The RHI Group is exposed to a variety of financial risks as a result of its business operations and strategic focus. The relevant financial risks for the RHI Group are credit risk, liquidity risk and market risk.

The objectives of risk management in the RHI Group are to minimise the loss of assets from the above-mentioned risks and, at the same time, provide support for the Group's strategy. In order to meet these objectives, risks must be identified, quantified and monitored on a continuous basis and appropriate measures must be taken to limit these risks.

The Management Board is responsible for the definition of risk policies. In order to ensure the optimal management of financial risks, the implementation of risk policies and ongoing risk management have been centralised and are coordinated by the Group's treasury department. The goals and principles for risk management as well as the distribution of duties and responsibilities between the treasury department and the operating units are defined in internal guidelines.

Credit risk

Credit risk represents the risk of a possible loss due to the failure of business partners to meet contractual obligations. In the RHI Group, credit risk arises primarily in connection with trade receivables due from customers.

Credit insurance and collateral arranged through banks (guarantees, letters of credit) are used to counteract the immanent risk of default inherent in business operations to the greatest extent possible, even if the contract partners have an excellent credit rating. The applicable criteria are defined in contracts with the credit insurers and in internal guidelines. Credit risk and the related 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 a single customer group or sector because the RHI Group is active in many different 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 financial policy is based on long-term planning, and is managed and monitored centrally. The liquidity requirements defined by the planning process are met through the conclusion of appropriate financing agreements.

As of 31 December 2007 the RHI Group had unused, immediately available lines of credit totalling € 162.9 million. These facilities were concluded with 15 Austrian and international banks in order to ensure the Group's independence from specific financial institutions.

A clearing process managed by the central treasury department shifts surplus liquidity in the RHI Group to companies with liquidity requirements. This reduces the need for external financing at the overall Group level.

Market risk

The major market risks to which the RHI Group is exposed are foreign exchange risk, interest rate risk and the risks arising from fluctuations in the prices of raw materials and energy (in the following, other market risks). The objective of risk management in this area is to minimise possible losses through the monitoring and management of these issues in keeping with the related possible threats and opportunities.

Foreign exchange risk

This risk arises above all in countries where business transactions (operating activities, investments, financing) are conducted in a currency other than the functional currency. These transactions take place in numerous currencies – among others in the euro, US-dollar, Canadian dollar, British pound and Chinese renminbi – because of the international nature of the RHI Group.

Decisions on the use of hedging instruments are based on the Group's net position in the relevant currency. The net positions were classified as low in 2007 because of the balanced international structure of business operations, and no derivative financial instruments were concluded for hedging purposes during the reporting year. Spot transactions were concluded to prevent short-term imbalances in foreign currency supplies.

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.

Fixed-interest financial assets and liabilities, which are measured at amortised cost, are not exposed to interest rate risk as defined in IFRS 7. Accordingly, the interest rate risk for the RHI Group is related above all to variable interest financial instruments that could cause a fluctuation in earnings or cash flows. The RHI Group is exposed to interest rate risk almost exclusively in the euro zone.

The objective of risk policies in the RHI Group is to maintain a balance between variable and fixed-interest borrowings in accordance with the current and planned financing structure. The interest-bearing financial liabilities and subordinated convertible bonds used by the RHI Group for financing purposes comprise approx. 75 percent of fixed-interest instruments and approx. 25 percent of variable-interest instruments. Interest rate risk was not hedged with derivative financial instruments during the reporting year because the financing structure of the Group is secured over the long-term through a sound balance of financing sources.

Emission certificates

The allocation of emission certificates was sufficient during phase I (2005 - 2007), but RHI will be required to purchase additional emission certificates at market prices during phase II (2008 - 2011). The terms for phase III (beginning in 2012) are still unresolved, and it is therefore not possible to evaluate the related risks.

Other Market risks

The risk of rising energy and raw material prices is countered by strategic measures such as an increase in the share of own raw materials in production, the geographical diversification of plant locations and, in part, the conclusion of long-term supply contracts at fixed prices.

No derivative financial instruments were concluded as hedges for other market risks during the reporting year.

Notes in Accordance with § 243a UGB

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

At 31 December 2007, the share capital of RHI AG amounted to € 272,348,969.51 and consisted of 37,476,039 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 2007, one shareholder (MS Private Foundation) to whom more than 25% of the voting rights were attributable was known to RHI. In addition, the MS Private Foundation holds RHI convertible bonds and can hold up to 29.22% of RHI shares if it fully exercises its conversion rights.

In addition, two shareholders (Dr. Wilhelm Winterstein, Germany, and the AvW Group, Austria) to whom more than 5% of the voting rights were attributable were known to the company at 31 December 2007.

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 up to 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 to 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 convertible bond certificates 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 2007, the Company was authorised to acquire treasury shares in accordance with § 65 para. 1 (4) AktG (Stock Corporation Act) in the amount of up to 7,500 no-par shares, which corresponded to 0.02 % 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. The cancellation of the restructuring agreement including the addendum due to a change of control through BA-CA or RHI AG shall be carried out within an exercise period of 90 days following the information of the respective party of the occurrence of a change of control, complying with a 3-month cancellation period at the end of a calendar month. If BA-CA or RHI AG cancels the agreement within the exercise period of 90 days, the extraordinary cancellation right in accordance with item 10.3. of the addendum will expire."

Events after the Balance Sheet Date

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

Vienna, 11 March 2008

Management Board:

Andreas Meier
m.p.

Stefano Colombo
m.p.

Giorgio Cappelli
m.p.

Manfred Hödl
m.p.

Rudolf Payer
m.p.

MINING

between
1908-1948

around1965

2007

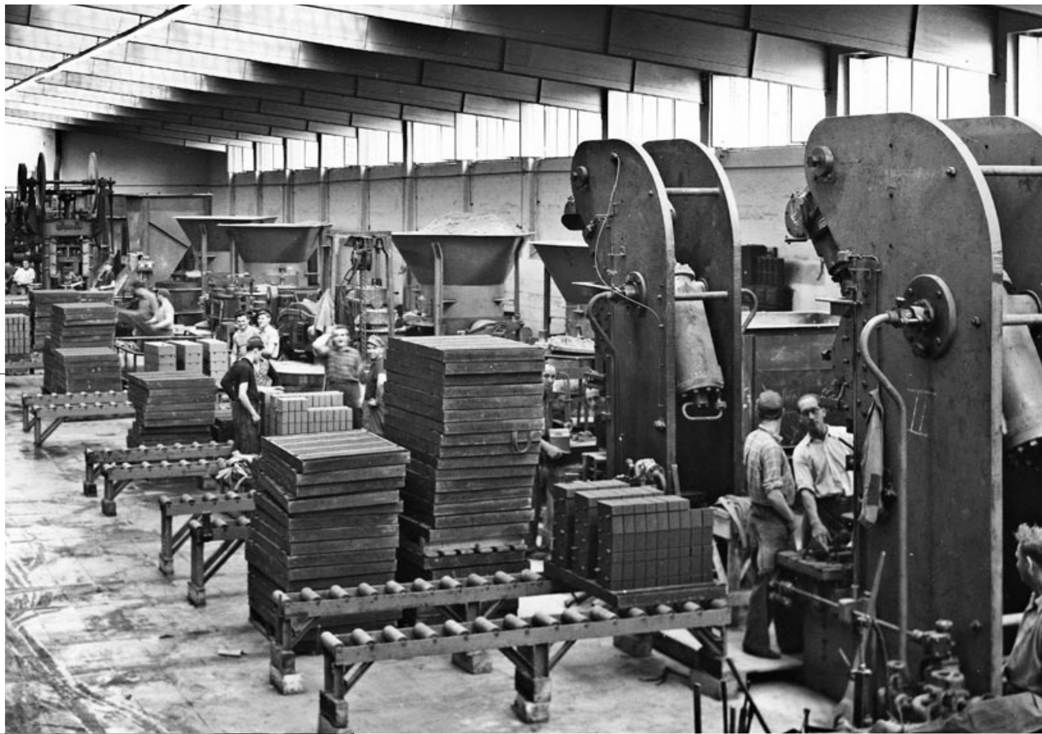
The development in mining proves RHI's power of innovation. State-of-the-art mining techniques have led to a substantial improvement in working conditions and to a more efficient and careful utilisation of raw materials and the environment.

before 1950

2003

2007

PRESSES



1950

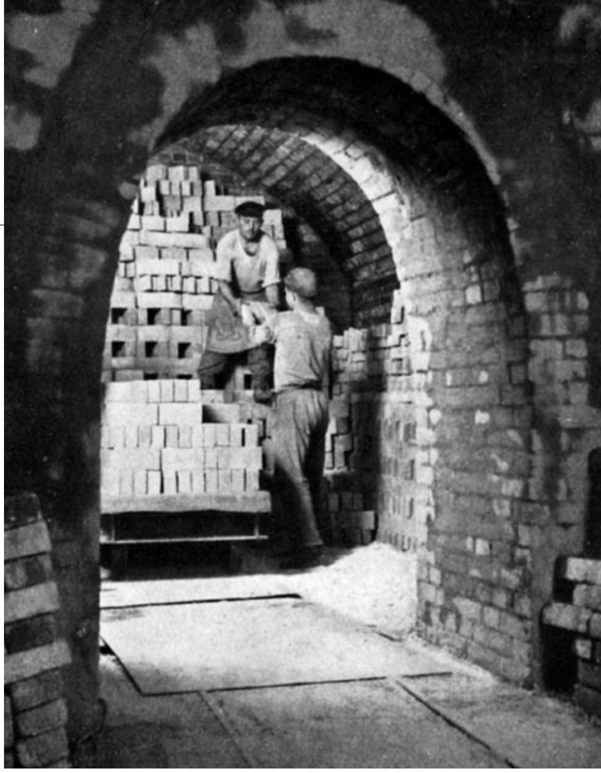
1950

1960

2007

Openness is one of the key principles of our corporate culture. Our global sales team identifies with and anticipates our customers' requirements and, together with the production facilities and more than 150 R&D employees, works on product and service solutions.

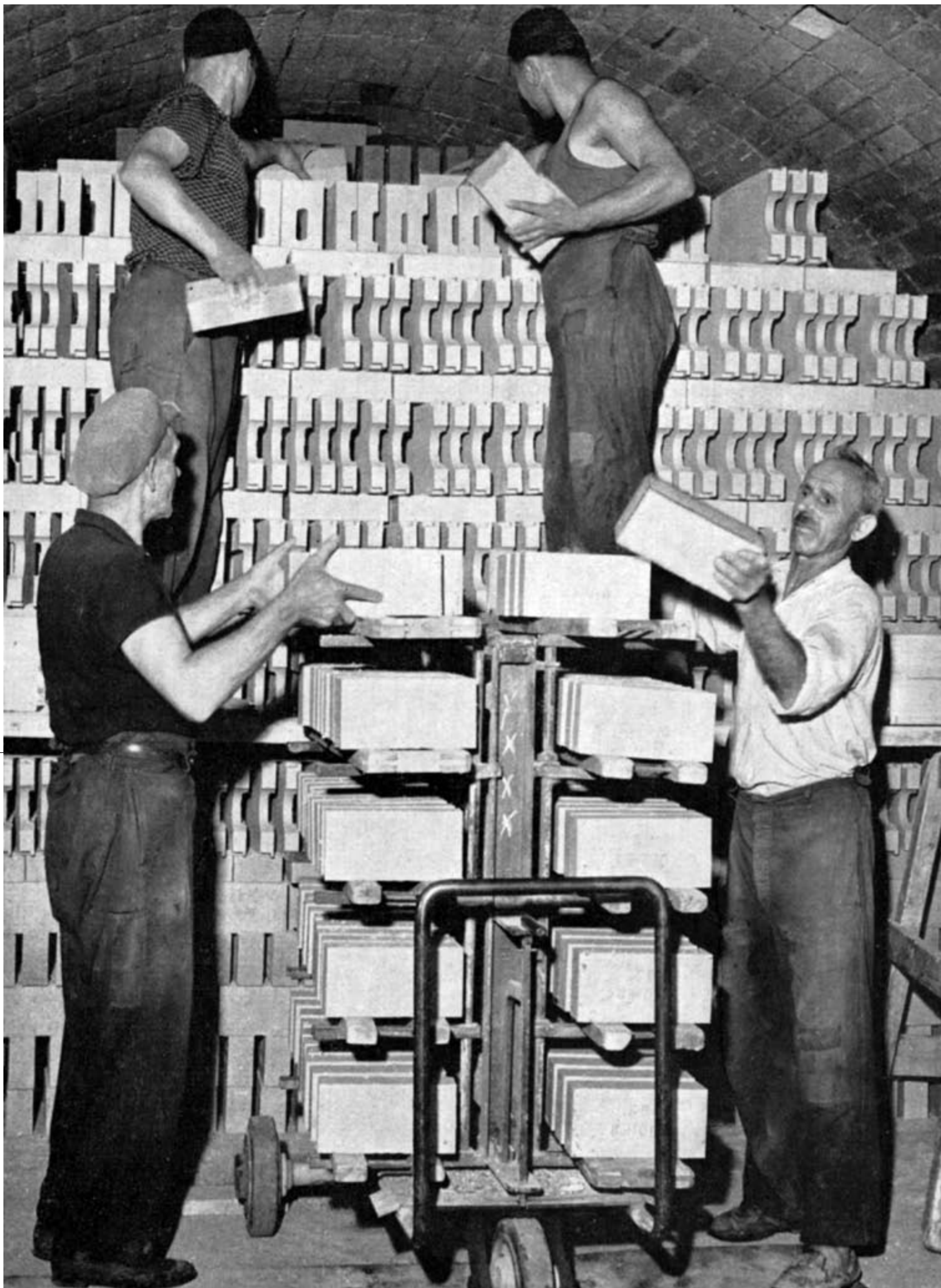
2007



before 1922

FIRING

Our customers worldwide appreciate RHI's reliability. Our high quality standard in everything we do gives them the confidence to be able to work efficiently and safely with our products and services.

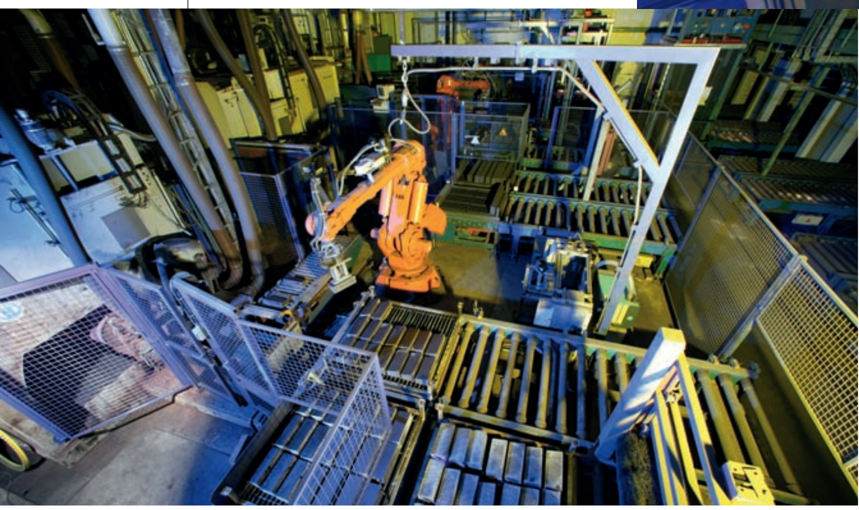


before 1955

2007

2007

2007



RHI Consolidated Financial Statements 2007

RHI Consolidated Balance Sheet 2007

in € million	Notes	31.12.2007	%	31.12.2006	%
ASSETS					
Non-current assets					
Property, plant and equipment	(1)	419.9	33.9	389.7	32.7
Goodwill	(2)	15.3	1.2	14.0	1.2
Other intangible assets	(3)	36.6	2.9	16.9	1.4
Shares in associates	(4)	12.4	1.0	13.3	1.1
Other non-current financial assets	(5)	39.5	3.2	41.1	3.4
Non-current receivables	(6)	1.1	0.1	1.7	0.1
Deferred tax assets	(7)	72.6	5.9	68.8	5.8
		597.4	**48.2**	**545.5**	**45.7**
Current assets					
Inventories	(8)	311.3	25.1	251.6	21.1
Trade and other current receivables	(9)	283.8	22.9	319.0	26.7
Current portion of non-current receivables	(6)	1.3	0.1	1.0	0.1
Income tax receivables		8.1	0.6	5.6	0.5
Current financial assets	(5)	3.4	0.3	3.3	0.3
Cash and cash equivalents	(10)	35.0	2.8	66.7	5.6
		642.9	**51.8**	**647.2**	**54.3**
		1,240.3	**100.0**	**1,192.7**	**100.0**
EQUITY AND LIABILITIES					
Equity					
Share capital	(11)	272.3	22.0	212.1	17.8
Group reserves	(11)	-193.1	-15.6	-297.2	-24.9
Equity attributable to equity holders of RHI AG		79.2	6.4	-85.1	-7.1
Minority interest	(11)	16.4	1.3	20.6	1.7
		95.6	**7.7**	**-64.5**	**-5.4**
Non-current liabilities					
Subordinated convertible bond	(13)	17.2	1.4	75.5	6.3
Non-current financial liabilities	(14)	349.4	28.2	396.1	33.2
Deferred tax liabilities	(7)	10.1	0.8	10.2	0.9
Personnel provisions	(15)	318.1	25.7	331.5	27.8
Other non-current provisions	(16)	3.0	0.2	2.5	0.2
Other non-current liabilities	(17)	6.4	0.5	4.5	0.4
		704.2	**56.8**	**820.3**	**68.8**
Current liabilities					
Trade and other current payables	(17)	251.9	20.3	246.3	20.6
Current financial liabilities	(14)	84.3	6.8	90.3	7.6
Income tax payables		37.7	3.0	25.4	2.1
Current provisions	(18)	66.6	5.4	74.9	6.3
		440.5	**35.5**	**436.9**	**36.6**
		1,240.3	**100.0**	**1,192.7**	**100.0**

RHI Consolidated Income Statement 2007

in € million	Notes	2007	%	2006	%
Continuing operations					
Revenues	(21)	1,485.8	100.0	1,335.8	100.0
Special direct distribution costs	(22)	-124.6	-8.4	-107.8	-8.1
Cost of sales	(23)	-1,023.4	-68.9	-940.8	-70.4
Gross profit		**337.8**	**22.7**	**287.2**	**21.5**
Distribution costs	(24)	-82.0	-5.5	-75.9	-5.7
Administrative expenses	(25)	-98.0	-6.6	-82.8	-6.2
Expenses arising from plant shutdown	(26)	-3.0	-0.2	0.0	0.0
Other income	(27)	10.1	0.7	9.9	0.7
Other expenses	(28)	-0.6	0.0	-4.6	-0.3
Operating results		**164.3**	**11.1**	**133.8**	**10.0**
Financial results	(31)	-39.2	-2.7	-25.0	-1.8
Results from associates		1.4	0.1	1.6	0.1
Profit before income taxes		**126.5**	**8.5**	**110.4**	**8.3**
Income taxes	(32)	-15.5	-1.0	-13.3	-1.0
Profit for the year from continuing operations		**111.0**	**7.5**	**97.1**	**7.3**
Discontinued operations					
Profit for the year from discontinued operations	(33)	0.0		60.8	
Profit for the year		**111.0**		**157.9**	
Profit attributable to					
equity holders of RHI AG	(11)	109.4	98.6	155.0	98.2
minority interest	(11)	1.6	1.4	2.9	1.8
		111.0	100.0	157.9	100.0

in €	Notes	2007	2006
Continuing operations			
Basic earnings per share	(39)	3.06	3.53
Diluted earnings per share [1)]	(39)	2.77	2.48
Discontinued operations			
Basic earnings per share		-	2.28
Diluted earnings per share [1)]		-	1.53

1) The calculation of diluted earnings per share asssumes the conversion of the convertible bonds by 2009 at the latest.

Income and Expenses Recognised in Equity by the RHI Group for 2007

in € million	Notes	2007	2006
Actuarial gains/(losses) arising from defined benefit pension plans and termination benefits		11.6	-11.6
Change in currency translation reserves		-12.1	-23.4
Changes in the value of shares in associates		0.2	-0.2
Other changes		-0.2	0.1
Deferred taxes on changes in value recognised directly in equity		-4.7	2.7
Income and expenses recognised directly in equity		**-5.2**	**-32.4**
Profit		**111.0**	**157.9**
Total recognised income	(11)	**105.8**	**125.5**
Recognised income and expenses attributable to			
equity holders of RHI AG		104.7	123.2
minority interest		1.1	2.3
		105.8	125.5

RHI Consolidated Cash Flow Statement 2007

in € million	Notes	2007	2006
Continuing operations			
Cash flow from operating activities	(34)	**154.8**	**50.9**
Investments in subsidiaries net of cash		-31.5	-2.4
Investments in minority interest		-3.3	0.0
Cash inflows from the sale of discontinued operations net of cash		0.0	216.6
Investments in property, plant and equipment and intangible assets		-78.8	-51.8
Cash inflows from the sale of property, plant and equipment and intangible assets		1.7	4.4
Investments in non-current receivables		-0.4	-0.3
Cash inflows from non-current receivables		0.7	0.8
Investments in financial assets		-0.4	0.0
Change in associates		2.4	1.9
Investment subsidies received		1.2	1.1
Interest received		4.2	7.1
Dividends received		0.5	0.5
Cash flow from investing activities	(35)	**-103.7**	**177.9**
Capital contribution from minority shareholders		1.7	0.0
Dividends to minority shareholders		-2.0	-1.3
Change in non-current borrowings		-46.7	-201.8
Change in current borrowings		-6.1	30.6
Change in other financial receivables and liabilities		0.0	-17.1
Interest payments		-29.0	-15.4
Cash flow from financing activities	(36)	**-82.1**	**-205.0**
Cash flow from continuing operations		**-31.0**	**23.8**
Discontinued operations			
Cash flow from discontinued operations	(37)	**0.0**	**3.9**
Total cash flow		**-31.0**	**27.7**
Change in cash and cash equivalents		**-31.0**	**27.7**
Cash and cash equivalents at beginning of year		66.7	39.5
Change in cash and cash equivalents due to currency translation		-0.7	-0.5
Cash and cash equivalents at year-end		35.0	66.7

RHI Notes to the Consolidated Financial Statements 2007

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° C.

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 in accordance with IAS 39, 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 results from the addition of these rounded individual figures.

Release of the consolidated financial statements for 2007
These consolidated financial statements were prepared by the Management Board and released on 11 March 2008.

The individual financial statements of the parent company, which were also included in the consolidation after adjustments to reflect International Financial Reporting Standards, will be presented to the Supervisory Board on 24 April 2008 for examination and approval. The Supervisory Board and the shareholders may amend the individual financial statements in such a manner that may also influence the presentation of the consolidated financial statements.

Initial application of financial reporting standards
The following standards and interpretations, which also call for mandatory application in the EU, were applied for the first time in 2007:

IAS 1 (amended 2005) Presentation of Financial Statements – Capital Disclosures
IFRS 7 (2005) Financial Instruments: Disclosures
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
IFRIC 10 (2006) Interim Financial Reporting and Impairment

The major changes resulting from the initial application of these standards and interpretations during the 2007 financial year are described below:

The addition to IAS 1 (amended 2005) "Presentation of Financial Statements" requires additional disclosures on capital, which include information on the structure of capital as well as the definition and managing of capital by the company's management and any externally imposed capital requirements.

IFRS 7 "Financial Instruments: Disclosures" requires disclosures on the significance of financial assets and financial liabilities for the financial position and performance of the company as well as qualitative and quantitative disclosures on the nature and extent of the risks associated with these financial assets and financial liabilities.

Since the additions to IAS 1 and IFRS 7 only involve rules for disclosure, their initial application had no effect on recognition or measurement.

The International Financial Reporting Interpretations Committee (IFRIC) issued IFRIC 10 to establish that impairment losses to goodwill and certain financial assets, which were recognised in interim financial statements and may not be reversed in accordance with IAS 36 and IAS 39, may also not be reversed in subsequent annual or interim financial statements.

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 2007 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:

IFRS 8 (2006) Operating Segments
IFRIC 11 (2006) IFRS 2 – Group and Treasury Share Transactions

In accordance with IFRS 8 "Operating Segments", the identification of segments should be based on the regular financial information that is used by management to evaluate performance and allocate resources. IFRS 8 is applicable to financial years that begin on or after 1 January 2009. The initial application of IFRS 8 is not expected to have any material effects on the RHI Group.

The initial application of IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions" is not expected to have any material effects on the RHI Group.

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

IAS 1 (amended 2007) Presentation of Financial Statements: Revised Presentation
IAS 1 (amended 2008) Presentation of Financial Statements – Puttable Financial Instruments
and Obligations arising on Liquidation
IAS 23 (2007) Borrowing Costs
IAS 27 (amended 2008) Consolidated and Separate Financial Statements
IAS 32 (amended 2008) Puttable Financial Instruments and Obligations Arising on Liquidation
IFRS 2 (amended 2008) Share-based Payment
IFRS 3 (revised 2008) Business Combinations
IFRIC 12 (2006) Service Concession Arrangements
IFRIC 13 (2007) Customer Loyalty Programmes
IFRIC 14 (2007) IAS 19 – The Limit on a Defined Benefit Asset Minimum Funding
Requirements and their Interaction

The amendments to IAS 1 (amended in 2007) "Presentation of Financial Statements" are applicable to financial years beginning on or after 1 January 2009. The major changes involve the titles of the balance sheet, income statement and cash flow statement, the additional disclosure of information on certain changes in equity (other comprehensive income) and the obligation to present an opening balance sheet for the first period affected by a retrospective change in accounting methods. The changes to IAS 1 are relevant for the RHI Group.

The revised version of IAS 23 (revised in 2007) "Borrowing Costs" eliminates the previous option for the treatment of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. In the future these borrowing costs must be capitalised as part of the acquisition or production cost of the asset. An asset meets the criteria for qualification when a substantial period of time is required to ready the asset for its intended use or sale. Borrowing costs attributable to inventories that are regularly produced in large quantities may not be capitalised, even if a substantial period of time is required to ready the assets for their intended use or sale. IAS 23 is applicable to financial years beginning on or after 1 January 2009. The RHI Group is currently evaluating the effects of the application of this revised standard on the consolidated financial statements.

The IASB issued the revised versions of IFRS 3 (revised in 2008) "Business Combinations" and IAS 27 (amended in 2008) "Consolidated and Separate Financial Statements according to IFRS" on 10 January 2008. The major changes to these standards can be summarised as follows:

In accordance with IFRS 3 (revised in 2008) transaction costs that are directly attributable to a business combination are no longer considered part of the purchase price for the acquired company, but must generally be recognised directly to profit or loss.

Subsequent adjustments to goodwill are no longer permitted for possible adjustments in the cost of an acquisition based on future events, which were initially recognised as a liability.

The new IFRS 3 provides an option for the accounting treatment of minority interests, which permits the capitalisation of the minority interest and any related goodwill or, in accordance with the previous policy, recognition of the assets and liabilities attributable to the minority interest at fair value.

If a business combination is achieved in stages, the differences between the carrying amount and the fair value of the previously owned shares is recognised to profit or loss at the point of acquisition and no longer recognised directly to equity under a revaluation reserve.

IFRS 3 (revised in 2008) regulates the accounting treatment of claims granted by the seller to the buyer for contingent compensation in connection with a liability of the acquired company, e. g. in connection with tax risks or legal disputes. In the future any such contingent compensation will lead to the recognition of an asset equal to the amount of the related liability. This asset will then be measured together with the corresponding liability in subsequent periods.

The changes to IAS 27 make the application of the “economic entity approach“ mandatory for the recognition of transactions with minority interests. Changes in the stake owned without a loss of control may only be recognised as equity transactions. However when control over a subsidiary is lost, the consolidated assets and liabilities must be derecognised. Any remaining investment in the former subsidiary must be initially recognised at fair value and any resulting differences must be recognised to profit or loss.

A further change in IAS 27 involves the allocation of losses attributable to minority interests. Whereas the current provisions of IAS 27 generally permit the allocation of losses that exceed the carrying amount of the minority interests to minority shareholders, the carrying amount of the minority interests can also be negative in the future.

The new version of IFRS 3 is prospectively applicable to entities acquired during a reporting period that begins on or after 1 July 2009. Earlier application is possible, but limited to reporting periods that begin on or after 30 June 2007. The changes to IAS 27 are applicable to financial years that begin on or after 1 July 2009, whereby earlier application is possible. However, the earlier application of one of these two standards also requires the concurrent application of the other standard. The RHI Group will evaluate the effects of the revised versions of IFRS 3 and IAS 27, and determine the application date accordingly.

The initial application of the other standards and interpretations is not expected to have any material impact on the RHI Group.

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 2007.

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.

When the RHI Group acquires additional shares in companies that are already included in the consolidated financial statements as subsidiaries, the difference between the purchase price and the proportional share of acquired net assets is recorded under equity.

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 arising 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 the 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 represents 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 to 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 average 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	
Currencies	ISO-Code	31.12.2007	31.12.2006	2007	2006
Pound sterling	GBP	0.73460	0.67040	0.68150	0.68217
Canadian dollar	CAD	1.44400	1.53050	1.47500	1.41000
Chilean peso	CLP	732.40000	702.47000	714.39833	661.71500
Mexican peso	MXN	16.07000	14.26000	14.93333	13.62583
Chinese renminbi yuan	CNY	10.74000	10.29900	10.40919	10.01923
South African rand	ZAR	10.03000	9.17000	9.56333	8.44167
US dollar	USD	1.47160	1.31600	1.36633	1.25167

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.

Scheduled 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. Customer bases identified during the allocation of the purchase price are amortised over a useful life of seven years. Acquired patents are amortised over the remaining term of the patent. The ordinary useful life of all other acquired intangible assets ranges from three to ten years.

F Impairment of property, plant and equipment, goodwill and other 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. The plant represents the smallest cash-generating unit.

As in the prior year, the 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 (2006: 1.5 percent) as well as an interest rate of 7,65 percent (2006: 7.55 percent). The determination of cash flows is based on a simplified cash flow statement that covers forecast data for a period of five years. The forecast data is based on an evaluation of the market by management.

G Financial assets

The financial assets shown in the RHI consolidated financial statements are comprised solely of financial assets classified as "available for sale" and "held for trading".

Available-for-sale financial assets are initially measured at cost plus any related transaction expenses. Subsequent measurement reflects fair value, and any changes in fair value are recorded directly in equity without recognition to profit or loss. Lasting or major impairment is reflected through a charge to profit or loss. If the reasons for impairment cease to exist, appropriate write-ups are recorded. The accumulated gains and losses from fair value measurement that are recorded under equity are only recognised to profit or loss when the financial asset is sold, cancelled or terminated.

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

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

The RHI Group classifies shares in non-consolidated subsidiaries, and other companies as well as securities as "available for sale". If there is no active market and the relevant fair values cannot be reliably determined with reasonable expense, these financial assets are measured at cost. If there are any indications that the fair value is lower, the carrying value is adjusted to equal this amount.

In the RHI Group, financial assets held for trading include embedded derivative financial instruments in outstanding orders as well as trade receivables that are denominated in a foreign currency. The underlying transactions represent primary financial instruments that are carried at amortised cost. The derivative financial instruments are separated from the underlying transaction and recognised at fair value, whereby gains and losses resulting from subsequent measurement are recognised to profit or loss under other income or expenses. Financial assets and financial liabilities classified in this category are reported under current financial assets or other current liabilities.

H Non-current receivables

Non-current receivables are measured at amortised cost, whereby the effective interest rate method is applied to receivables that are not interest-bearing or carry interest at a rate below the market level. Any doubt concerning the collectibility of non-current receivables is reflected in the use of the lower realisable amount. Foreign currency receivables are translated at the exchange rate in effect on the balance sheet date.

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

I 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 (9 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.

J 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.

K Construction contracts

Construction contracts are accounted for using the percentage of completion method if the criteria defined in IAS 11 have been met.

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.

L Trade receivables and other current receivables
Receivables are carried at nominal value after the deduction of any valuation adjustments. These valuation adjustments are determined on an individual basis and reflect any recognisable risk of default. Specific cases of default are reflected in derecognition of the relevant receivables.

Receivables denominated in a foreign currency are translated using the average exchange rate on the balance sheet date.

M 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 on the balance sheet.

N Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and cheques as well as balances with financial institutions that had a remaining term of up to three months as of the date of deposit.

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

O 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 7.3 percent (rounded).

P 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, the USA 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 first class fixed-interest 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 project 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 5.25 percent (31.12.2006: 4.25 percent) and an increase of 3.75 percent (31.12.2006: 3.25 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.

Q Trade payables and other current 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 average exchange rate in effect on the balance sheet date.

R 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.

S Revenue and expenses

Revenue comprises the sale of products and services less rebates and other sales deductions.

Revenue is realised when a service is performed or when risk is transferred to the customer, after the return compensation has been contractually defined or can otherwise be determined and the RHI Group can therefore expect to collect the related receivable. If formal acceptance by the customer is planned, the related revenue is only recognised after this acceptance has been received.

Revenue on construction contracts is realised according to the percentage of completion method, if the requirements of IAS 11 have been met.

Expenses are recognised to 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.

Dividends are recognised after the approval of the relevant resolution for the distribution.

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

T 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 was accounted for in accordance with the provisions of IFRS 5 from 1 October 2005 up to its sale on 13 June 2006.

U 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.

V Risk management

The RHI Group is exposed to a variety of financial risks as a result of its business operations and strategic focus. The relevant financial risks for the RHI Group are credit risk, liquidity risk and market risk.

The objectives of risk management in the RHI Group are to minimise the loss of assets from the above-mentioned risks and, at the same time, provide support for the Group's strategy. In order to meet these objectives, risks must be identified, quantified and monitored on a continuous basis and appropriate measures must be taken to limit these risks.

The Management Board is responsible for the definition of risk policies. In order to ensure the optimal management of financial risks, the implementation of risk policies and ongoing risk management have been centralised and are coordinated by the Group's treasury department. The goals and principles for risk management as well as the distribution of duties and responsibilities between the treasury department and the operating units are defined in internal guidelines.

Credit risk

Credit risk represents the risk of a possible loss due to the failure of business partners to meet contractual obligations. In the RHI Group, credit risk arises primarily in connection with trade receivables due from customers.

Credit insurance and collateral arranged through banks (guarantees, letters of credit) are used to counteract the immanent risk of default inherent in business operations to the greatest extent possible, even if the contract partners have an excellent credit rating. The applicable criteria are defined in contracts with the credit insurers and in internal guidelines. Credit risk and the related 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 a single customer group or sector because the RHI Group is active in many different 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 financial policy is based on long-term planning, and is managed and monitored centrally. The liquidity requirements defined by the planning process are met through the conclusion of appropriate financing agreements.

As of 31 December 2007 the RHI Group had unused, immediately available lines of credit totalling € 162.9 million. These facilities were concluded with 15 Austrian and international banks in order to ensure the Group's independence from specific financial institutions.

A clearing process managed by the central treasury department shifts surplus liquidity in the RHI Group to companies with liquidity requirements. This reduces the need for external financing at the overall Group level.

Market risk

The major market risks to which the RHI Group is exposed are foreign exchange risk, interest rate risk and the risks arising from fluctuations in the prices of raw materials and energy (in the following, other market risks). The objective of risk management in this area is to minimise possible losses through the monitoring and management of these issues in keeping with the related possible threats and opportunities.

Foreign exchange risk

This risk arises above all in countries where business transactions (operating activities, investments, financing) are conducted in a currency other than the functional currency. These transactions take place in numerous currencies – among others in the euro, US-dollar, Canadian dollar, British pound and Chinese renminbi – because of the international nature of the RHI Group.

Decisions on the use of hedging instruments are based on the Group's net position in the relevant currency. The net positions were classified as low in 2007 because of the balanced international structure of business operations, and no derivative financial instruments were concluded for hedging purposes during the reporting year. Spot transactions were concluded to prevent short-term imbalances in foreign currency supplies.

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.

Fixed-interest financial assets and liabilities, which are measured at amortised cost, are not exposed to interest rate risk as defined in IFRS 7. Accordingly, the interest rate risk for the RHI Group is related above all to variable interest financial instruments that could cause a fluctuation in earnings or cash flows. The RHI Group is exposed to interest rate risk almost exclusively in the euro zone.

The objective of risk policies in the RHI Group is to maintain a balance between variable and fixed-interest borrowings in accordance with the current and planned financing structure. The interest-bearing financial liabilities and subordinated convertible bonds used by the RHI Group for financing purposes comprise approx. 75 percent of fixed-interest instruments and approx. 25 percent of variable-interest instruments. Interest rate risk was not hedged with derivative financial instruments during the reporting year because the financing structure of the Group is secured over the long-term through a sound balance of financing sources.

Other market risks

The allocation of emission certificates was sufficient during phase I (2005 - 2007), but RHI will be required to purchase additional emission certificates at market prices during phase II (2008 - 2011). The terms for phase III (beginning in 2012) are still unresolved, and it is therefore not possible to evaluate the related risks.

The risk of rising energy and raw material prices is countered by strategic measures such as an increase in the share of own raw materials in production, the geographical diversification of plant locations and, in part, the conclusion of long-term supply contracts at fixed prices.

No derivative financial instruments were concluded as hedges for other market risks during the reporting year.

W US Chapter 11 proceedings

In the USA the first instance in the Chapter 11 proceedings over North American Refractories Co., Harbison-Walker Refractories Co., AP Green Industries Inc. and Global Industrial Technologies Inc. was positively concluded during September and December 2007 with the approval and confirmation of the reorganisation plan. These companies were no longer considered to be subsidiaries of RHI AG and were therefore deconsolidated as of 31 December 2001 because the Chapter 11 proceedings do not permit RHI AG to exercise control.

RHI AG and several Group companies concluded agreements on 9 April 2004 with the previous US owners, Honeywell International Inc. and Halliburton / DII Industries, LLC, and the companies involved in the Chapter 11 proceedings to finally clarify outstanding points and earlier contractual agreements as well as reciprocal claims and claims by third parties.

These agreements regulate the waiver by RHI to receivables due from the US companies before the Chapter 11 proceedings as well as the waiver by RHI to all shares in the US companies in conjunction with the termination of the Chapter 11 proceedings. Since RHI had written off all related receivables and investments in the consolidated financial statements for 2001, the implementation of these agreements will have no further effect on earnings. In order for the agreement to take effect, Honeywell must make a payment of USD 40.0 million to RHI Refractories Holding Company as soon as the court decision becomes legally effective and is implemented. This payment is defined in an earlier contract relating to the Chapter 11 proceedings over North American Refractories Co. RHI has already received USD 60.0 million on the basis of this contract.

In January 2005 RHI AG and its holdings became the legal recipients of the court decisions on the DII reorganisation plan, which was approved by the jurisdictional court in connection with the Chapter 11 proceedings for which DII had filed at the end of 2003. The conclusion of the DII proceedings resulted in the legal and final transfer of all current and future asbestos and silica-related claims against the former RHI subsidiary Harbison-Walker to the DII trust fund. This represented the final settlement of a major part of the claims against former RHI companies in the USA. DII met its contractual obligations and transferred a payment of USD 10.0 million to RHI on 24 January 2005.

The approval of the reorganisation plan on 18 December 2007 was followed by a 30-day appeal period. Two insurance companies filed appeals within this period based on the reasoning that they had used unsuccessfully in their first instance appeals. At the present time, it is not known when the court of appeals will issue its decision.

The final court decision on the reorganisation plans will give RHI AG full legal security concerning all remaining claims for damages against the US companies covered by the Chapter 11 proceedings. Moreover, RHI AG and its holdings will then become the legal recipients of the court decisions based on the reorganisation plans. This would represent the final legal settlement of all current and future asbestos-related claims for damages against the deconsolidated US companies.

X 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 € 5.7 million, while an increase of 10 percent 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 2007 would not result in an impairment charge to goodwill.

In accordance with IAS 36, impairment losses recognised to 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 15.

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 € 14.8 million higher or € 11.9 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 € 4.7 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.

Y Consolidation range

In addition to RHI AG, the consolidated financial statements include 73 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 and prior year:

	Full consolidation	Equity method
31.12.2006	**73**	**4**
Additions	2	0
Disposals	-1	0
31.12.2007	**74**	**4**

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

Fully consolidated subsidiaries

Additions in 2007

The consolidation range was enlarged in 2007 to include the following newly founded subsidiaries:

Dutch Brasil Holding B.V., Arnhem, Netherlands (11.7.2007, 100 percent)
RHI India Private Limited, Navi Mumbai, India (15.6.2007, 60 percent)

A purchase contract for the acquisition of the assets and liabilities of Monofrax Inc., Falconer, USA, was signed on 14 December 2006. Monofrax Inc. produces fused cast refractory products, which are used above all in the glass industry. The transaction took effect on 31 January 2007 and the assets and liabilities were acquired by Refractory Intellectual Property GmbH & Co KG, Vienna, Austria, RHI Monofrax, Ltd., Wilmington, USA, and RHI Monofrax PPE LLC, Wilmington, USA as of this date.

The acquisition costs totalled € 31.5 million, and include € 1.1 million of directly attributable expenses for business and legal consulting.

The assets, liabilities and contingent liabilities as of the acquisition date are as follows:

in € million	IFRS carrying amount	Fair value
Property, plant and equipment	6.3	10.2
Intangible assets	0.0	17.3
Inventories	9.1	10.4
Other current assets	4.6	4.6
Personnel provisions	-7.2	-7.2
Other non-current provisions	0.0	-0.6
Current provisions	-0.1	-0.1
Other current liabilities	-4.2	-4.2
Net assets acquired	**8.5**	**30.4**

The acquisition resulted in goodwill of € 1.1 million.

RHI Monofrax, Ltd. contributed € 37.7 million to Group revenues from 1 February 2007 to 31 December 2007. Group profit after tax includes € 2.7 million of earnings for this same period. If the business combination had taken place at the beginning of the 2007 financial year, the contribution to revenues would have equalled € 39.8 million and Group profit after tax would have totalled € 110.9 million.

Acquisition of minority interests
RHI acquired the remaining 40 percent in Dolomite Franchi S.p.A., Brescia, Italy, through its subsidiary Refrattari Italiana S.p.A., Genoa, Italy, with a purchase contract dated 31 July 2007. The purchase price, including transaction costs, equalled € 7.0 million. Of this total, € 3.0 was due and payable on the acquisition date; the remaining purchase price will be paid in two instalments of € 2.6 million in 2008 and € 1.4 million in 2009.

The increase in minority interests was treated as a transaction between owners. The difference between the cost of the additional shares and the € 8.0 million proportional carrying value of the minority interest equalled € 1.0 million, and was recognised directly in equity.

Additions in 2006
The consolidation range was enlarged during the prior year 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, People's Republic of 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, People's Republic of 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 51percent 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. Mid of 2007 the production of prefabricated construction parts was started in addition to the current production of bricks and mixes.

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 as of the acquisition date are shown in the following table:

in € million	31.12.2006
Payments on the purchase price made by the acquisition date	1.6
Costs directly attributable to the acquisition	-1.5
Goodwill	**0.1**

A preliminary determination of the acquired assets and liabilities as of 31 December 2006 resulted in the following:

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.

The retroactive adjustment of the fair values of assets and liabilities determined in the prior year was not required in 2007.

Disposals in 2007

Dolomite Franchi S.p.A., Brescia, Italy, was removed from the circle of fully consolidated companies as of 31 December 2007 following its merger with Refrattari Italiana S.p.A., Genoa, Italy. Refrattari Italiana S.p.A. was renamed Dolomite Franchi S.p.A., and the headquarters of the company were relocated to Brescia.

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 was combined under Heraklith AG, Ferndorf, in accordance with Austrian company law. On 13 January 2006 RHI Refractories Raw Material GmbH 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, totalled € 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 Insulating Division 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 disposals
Gen-X Technologies Inc., Burlington, Canada, was deconsolidated following its merger with RHI Canada Inc., Burlington, Canada, on 1 January 2006.

Companies consolidated at equity

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

Subsidiaries not included in the consolidation

Four subsidiaries (2006: five) 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 of Group revenues.

Forty-nine former US subsidiaries of the RHI Group (in particular Harbison Walker Refractories Co., AP Green Industries Inc. and North American Refractories Co.) have not been classified as subsidiaries of RHI AG since 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 43.

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 2007:

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 31.12.2006	328.3	31.0	646.8	204.0	24.4	1,234.5
Currency translation	-2.6	0.0	-4.3	-1.0	-1.1	-9.0
Change in consolidated companies	2.9	0.0	6.4	0.5	0.4	10.2
Additions	6.7	0.3	19.7	7.8	40.0	74.5
Retirements and disposals	-6.3	0.0	-9.3	-8.3	0.0	-23.9
Reclassifications	2.9	0.0	12.1	6.1	-22.7	-1.6
Cost at 31.12.2007	**331.9**	**31.3**	**671.4**	**209.1**	**41.0**	**1,284.7**
Accumulated depreciation at 31.12.2006	190.3	21.8	474.9	157.8	0.0	844.8
Currency translation	-0.3	0.0	-1.4	-0.5	0.0	-2.2
Depreciation charge	7.2	0.3	24.6	10.3	0.0	42.4
Impairment losses	1.2	0.0	1.0	0.1	0.0	2.3
Retirements and disposals	-5.1	0.0	-9.3	-8.1	0.0	-22.5
Reclassifications	0.0	0.0	0.2	-0.2	0.0	0.0
Accumulated depreciation at 31.12.2007	**193.3**	**22.1**	**490.0**	**159.4**	**0.0**	**864.8**
Carrying amounts at 31.12.2007	**138.6**	**9.2**	**181.4**	**49.7**	**41.0**	**419.9**

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**

Impairment charges of € 2.3 million were recognised during 2007 and included in the expenses for plant shutdowns.

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

Assets obtained through finance leases are included under property, plant and equipment, and totalled € 0.3 million in 2007 (31.12.2006: € 0.4 million). The related acquisition costs remained unchanged from the prior year at € 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 € 15.7 million (2006: € 14.5 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 € 2.2 million at year-end 2007 (31.12.2006: € 2.3 million). Rental income of € 0.2 million was generated during the reporting period (2006: € 0.2 million), and is contrasted by expenses of € 0.1 million (2006: € 0.1 million).

The marketability of real estate totalling € 20.6 million (31.12.2006: € 20.7 million) is limited by its commitment as collateral for credits.

(2) Goodwill

Goodwill developed as follows during the reporting year:

in € million	2007	2006
Cost/carrying amount at beginning of year	**14.0**	**13.9**
Currency translation	-0.1	0.0
Change in consolidated companies	1.1	0.1
Additions	0.3	0.0
Cost/carrying amount at year-end	**15.3**	**14.0**

Goodwill recognised on business combinations in 2007 was related to the initial consolidation of the acquired assets and liabilities of RHI Monofrax, Ltd. and RHI Monofrax PPE LLC, both Wilmington, USA.

The addition of € 0.3 million to goodwill is attributable to the subsidiary RHI Clasil Limited, Hyderabad, India, and represents directly allocated and subsequently capitalised acquisition costs.

The goodwill recognised as of 31 December 2007 is comprised of the following: € 1.0 million (31.12.2006: € 0.0 million) for the RHI Monofrax Group and € 0.4 million (31.12.2006: € 0.1 million) for RHI Clasil Limited as well as an unchanged amount of € 12.7 million for the production facilities in Mexico and € 1.2 million (31.12.2006: € 1.2 million) for the plants belonging to the Didier-Werke AG Group (with the exception of Mexico).

(3) Other intangible assets

Other intangible assets changed as follows:

in € million	Internally generated intangible assets	Other intangible assets	Total
Cost at 31.12.2006	11.5	34.2	45.7
Currency translation	-0.2	-0.4	-0.6
Change in consolidated companies	0.0	17.3	17.3
Additions	3.0	4.8	7.8
Retirements and disposals	0.0	-0.6	-0.6
Reclassifications	0.0	1.6	1.6
Cost at 31.12.2007	**14.3**	**56.9**	**71.2**
Accumulated amortisation at 31.12.2006	2.3	26.5	28.8
Currency translation	0.0	-0.2	-0.2
Amortisation charge	2.1	3.7	5.8
Impairment losses	0.8	0.0	0.8
Retirements and disposals	0.0	-0.6	-0.6
Accumulated amortisation at 31.12.2007	**5.2**	**29.4**	**34.6**
Carrying amounts at 31.12.2007	**9.1**	**27.5**	**36.6**

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**

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 € 3.3 million (2006: € 1.4 million), distribution costs with € 0.1 million (2006: € 0.1 million) and administrative expenses with € 2.4 million (2006: € 1.9 million). Impairment charges of € 0.8 million (2006: € 0.3 million) were included under the cost of sales in 2007 (2006: distribution costs).

Expenses recognised for research and development in 2007 totalled € 18.1 million (2006: € 16.3 million).

(4) Shares in associates
The development of shares in associates is shown below:

in € million	2007	2006
Carrying amount at beginning of year	**13.3**	**13.9**
Share in profit (after tax)	3.0	1.6
Impairment losses	-1.6	0.0
Dividends	-2.5	-1.9
Other changes in value (after taxes)	0.2	-0.3
Carrying amount at year-end	**12.4**	**13.3**

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)
2007					
Dolomite di Montignoso S.p.A., Genoa, Italy	28.56	0.2	0.2	0.0	0.0
MAGNIFIN Magnesiaprodukte GmbH & Co KG, St. Jakob, Austria	50.00	31.1	16.5	22.1	6.9
Shandong RHI New Materials Co., Ltd., Zibo City, PR China	50.00	5.8	3.1	0.0	-0.9
Società Dolomite Italiana SDI S.p.A., Gardone Val Trompia, Italy	50.00	0.5	0.1	0.5	0.0
Total		**37.6**	**19.9**	**22.6**	**6.0**

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**

(5) Other non-current and current financial assets

The financial assets shown on the balance sheet are comprised of the following items:

in € million	31.12.2007	31.12.2006
Investments - available for sale	5.9	5.9
Securities - available for sale	33.2	35.2
Prepayments on investments in subsidiaries	0.4	0.0
Other non-current financial assets	**39.5**	**41.1**

in € million	31.12.2007	31.12.2006
Investments - available for sale	2.9	2.9
Financial assets - held for trading	0.5	0.4
Current financial assets	**3.4**	**3.3**

Stopinc AG, Hünenberg, Switzerland, in which the RHI Group holds a stake of 50 percent, is carried at fair value in accordance with IAS 39.

The impairment losses recognised to financial assets available for sale during the reporting year and prior year are as follows:

in € million	2007	2006
Accumulated impairment losses at beginning of year	**3.6**	**2.7**
Impairment losses	1.9	0.9
Accumulated impairment losses at year-end	**5.5**	**3.6**

(6) Non-current receivables and current portion of non-current receivables
Non-current receivables, including the current portion of non-current receivables, totalled € 2.4 million (31.12.2006: € 2.7 million). The valuation adjustments of € 0.5 million recognised to non-current receivables, including the current portion of non-current receivables, as of 31 December 2005 were used during 2006. No valuation adjustments were recognised as of 31 December 2007.

As of the balance sheet date, receivables with a total nominal value of € 1.3 million (31.12.2006: € 1.9 million) were assigned.

(7) Deferred taxes
Net deferred taxes on balance sheet items are as follows:

in € million	31.12.2007	31.12.2006
Deferred tax assets	72.6	68.8
Deferred tax liabilities	-10.1	-10.2
Net position	**62.5**	**58.6**

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

in € million	2007	2006
Net position at beginning of year	**58.6**	**58.5**
Currency translation	-0.6	-0.7
Change to income statement	9.1	-2.2
Recording without recognition through profit or loss	-4.7	2.7
Effect of changes in tax rates	0.1	0.3
Net position at year-end	**62.5**	**58.6**

In 2007 and 2006 the corporate income tax rate in Germany amounted to 25 percent plus a solidarity premium equal to 5.5 percent of the total corporate income tax liability. The total tax rate for the German subsidiaries, including trade tax, equalled roughly 40 percent. A corporate tax reform will reduce this overall taxation to roughly 30 percent beginning in 2008, whereby the focal point will be a decrease in the corporate income tax rate from 25 percent to 15 percent. This tax cut was reflected in the calculation of deferred tax assets and deferred tax liabilities for the German companies, and resulted in deferred tax expense of € 0.5 million. The subsequent adjustment of deferred taxes, which were recorded without recognition to profit or loss, led to a decrease of € 0.5 million in equity.

The tax rates in numerous other countries, including Italy and Great Britain, were also changed during 2007. These new rates were applied in the calculation of deferred taxes.

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
31.12.2006	**46.4**	**10.0**	**34.1**	**1.9**	**92.4**
Currency translation	-0.1	-0.1	-0.3	-0.2	-0.7
Change to income statement	-0.5	-1.7	8.8	10.0	16.6
Recording without recognition through profit or loss	-4.7	0.0	0.0	0.0	-4.7
Effect of changes in tax rates	-2.7	-0.4	-1.5	-1.2	-5.8
31.12.2007	**38.4**	**7.8**	**41.1**	**10.5**	**97.8**

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	-0.1	1.0	-5.6	0.0	-4.7
Recording without recognition through profit or loss	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**

Deferred tax liabilities

in € million	Accelerated tax depreciation	Other	Total
31.12.2006	**33.4**	**0.4**	**33.8**
Currency translation	-0.1	0.0	-0.1
Change to income statement	1.5	6.0	7.5
Effect of changes in tax rates	-5.9	0.0	-5.9
31.12.2007	**28.9**	**6.4**	**35.3**

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	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**

Tax loss carryforwards in the RHI Group totalled € 690.6 million as of 31 December 2007 (31.12.2006: € 747.1 million). Deferred taxes were not recorded on € 521.6 million of this amount (31.12.2006: € 613.5 million). The main portion of the unrecognised tax losses can be carried forward indefinitely. Of the tax losses whose use is limited in time, € 14.1 million expire in 2012 and € 1.7 million in 2014.

Deferred taxes were not recognised on temporary differences of € 5.2 million (31.12.2006: € 0.0 million).

Taxable temporary differences of € 25.0 million (31.12.2006: € 7.8 million) and deductible temporary differences of € 54.2 million (31.12.2006: € 81.5 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 € 0.2 million (31.12.2006: € 5.0 million).

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

in € million	31.12.2007	31.12.2006
Raw materials and supplies	115.2	79.0
Unfinished products	48.4	40.7
Finished products and goods	141.2	126.2
Prepayments made	6.5	5.7
Inventories	**311.3**	**251.6**

The carrying amount of inventories at fair value less costs to sell equalled € 24.6 million as of 31 December 2007 (31.12.2006: € 10.1 million).

Impairment charges of € 5.1 million were recognised in inventories during the reporting year (2006: € 1.2 million), and were contrasted by reversals of € 0.7 million (2006: € 0.9 million).

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

in € million	31.12.2007	31.12.2006
Trade receivables	228.3	273.1
Receivables from construction contracts	7.8	5.7
Receivables from associates	0.9	1.3
Other current receivables	46.8	38.9
Trade and other receivables	**283.8**	**319.0**

Other current receivables comprise the following:

in € million	31.12.2007	31.12.2006
Other taxes	27.0	25.8
Receivables employees	1.2	0.9
Prepaid expenses	1.6	1.0
Other	17.0	11.2
Other current receivables	**46.8**	**38.9**

RHI AG sold trade receivables totalling € 75.4 million, which equals the amount covered by credit insurance, to an Austrian financial institution in December 2007. The balance sold equalled € 67.5 million as of 31 December 2007. This transaction also involved the transfer of default and foreign exchange risk on the sold receivables from RHI to the buyer. In accordance with the provisions of IAS 39, this sale was reflected as a reduction of receivables on the Group's balance sheet.

The valuation adjustments to trade and other current receivables developed as follows in 2007 and the previous year:

in € million	2007	2006
Accumulated impairment losses at beginning of year	**12.8**	**12.6**
Currency translation	-0.4	-0.8
Change in consolidated companies	0.4	0.0
Addition	3.7	3.3
Use	-1.0	-1.3
Reversal	-1.8	-1.0
Accumulated impairment losses at year-end	**13.7**	**12.8**

Provisions of € 2.0 million (2006: € 0.0 million) were recognised as expenses in 2007 to reflect the risk arising from receivables due from an associate. The relevant amounts are included under additions.

The income and expenses arising from valuation adjustments and the derecognition of trade and other current receivables are included primarily under distribution costs and administrative expenses.

The credit risk arising from trade receivables and construction contracts is shown below, classified by customer industry, foreign currency and term:

The following table shows the credit risk by customer segment that is protected by credit insurance, letters of credit and guarantees:

in € million	31.12.2007	31.12.2006
Segment Steel	142.8	175.5
Segment Industrial	78.6	77.3
Segment Raw Materials, Production, other	14.7	26.0
Receivables from construction contracts and trade receivables	236.1	278.8
Credit insurance and bank guarantees	-158.2	-196.0
Net credit exposure	**77.9**	**82.8**

The carrying values of receivables denominated in currencies other than the functional currency of the parent company are as follows:

in € million	31.12.2007	31.12.2006
US-dollar	54.4	53.9
Pound sterling	3.8	3.9
Other currencies	1.7	1.2
Other functional currencies	176.2	219.8
Receivables from construction contracts and trade receivables	**236.1**	**278.8**

The classification of receivables by term is as follows:

in € million	31.12.2007	31.12.2006
Neither impaired nor past due at balance sheet date	185.3	223.4
Not impaired at balance sheet date and past due in the following time frames		
Less than 30 days	32.4	34.2
Between 30 and 59 days	7.7	8.3
Between 60 and 89 days	2.5	3.1
More than 90 days	8.2	9.8
Receivables from construction contracts and trade receivables	**236.1**	**278.8**

With respect to the trade receivables and receivables from construction contracts that were neither impaired nor overdue, there were no indications as of the balance sheet date that the debtors would be unable to meet their payment obligations.

Valuation adjustments were not recognised for receivables of € 50.8 million that were overdue as of the balance sheet date (31.12.2006: € 55.4 million) because the risk of default was basically covered by credit insurance as well as guarantees and letters of credit.

No receivables were assigned as of 31 December 2007 (31.12.2006: € 173.0 million).

(10) Cash and cash equivalents
This balance sheet item is classified as follows:

in € million	31.12.2007	31.12.2006
Cash on hand	0.1	0.1
Cheques	0.6	0.5
Cash at banks	34.3	66.1
Cash and cash equivalents	**35.0**	**66.7**

Foreign exchange regulations in various countries restrict the use of cash and cash equivalents totalling € 1.8 million (31.12.2006: € 2.1 million).

Equity and Liabilities

(11) Equity

The individual components of equity and their development during 2007 and 2006 are shown in the following tables:

in € million	Share capital	Group reserves	**Equity attributable to equity holders of RHI AG**	**Minority interest**	**Total equity**
31.12.2006	212.1	-297.2	**-85.1**	**20.6**	**-64.5**
Income and expenses recognised directly in equity	-	-4.7	**-4.7**	**-0.5**	**-5.2**
Profit	-	109.4	**109.4**	**1.6**	**111.0**
Total recognised income and expenses	-	104.7	**104.7**	**1.1**	**105.8**
Dividend payments	-	-	**0.0**	**-2.0**	**-2.0**
Capital increase	60.2	-	**60.2**	**-**	**60.2**
Effects of convertible bonds	-	-1.6	**-1.6**	**-**	**-1.6**
Change in minority interest	-	1.0	**1.0**	**-3.3**	**-2.3**
31.12.2007	272.3	-193.1	**79.2**	**16.4**	**95.6**

in € million	Share capital	Group reserves	**Equity attributable to equity holders of RHI AG**	**Minority interest**	**Total equity**
31.12.2005	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	-	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 bond	-	-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**

The share capital of RHI AG totalled € 272,348,969.51 (31.12.2006: € 212,074,126.88) and is comprised of 37,476,039 (31.12.2006: 29,182,039) zero par value 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.

Conditional capital

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 through the issue of up to 9,949,500 zero par value bearer shares with voting rights at an issue price of € 7.27 per share.

The unused conditional capital has developed as follows during the reporting year:

	Number of convertible bonds	Number of shares	€
31.12.2005	**1,809**	**9,949,500**	**72,305,836.31**
31.12.2006	**1,809**	**9,949,500**	**72,305,836.31**
Conversion in first quarter	-598	-3,289,000	-23,902,092.77
Conversion in second quarter	-866	-4,763,000	-34,614,067.45
Conversion in fourth quarter	-2	-11,000	-79,940.11
31.12.2007	**343**	**1,886,500**	**13,709,735.98**

Authorised capital

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 through the issue of 9,949,500 zero par value 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 zero par value 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
19 March 2007	27 March 2007	33	181,500
19 June 2007	20 June 2007	2	11,000
11 September 2007	13 September 2007	3	16,500
14 December 2007	19 December 2007	4	22,000
		42	**231,000**

Unused authorised capital:

	Number of shares	€
31.12.2006	**687,500**	**4,996,278.52**
Conversion in March	-181,500	-1,319,011.81
Conversion in June	-11,000	-79,940.11
Conversion in September	-16,500	-119,910.16
Conversion in December	-22,000	-159,880.22
31.12.2007	**456,500**	**3,317,536.22**

	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**

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

in € million	Additional paid-in capital	Fair value reserves	Currency translation reserves	Accumulated results	Total
31.12.2006	**38.1**	**4.4**	**-45.0**	**-294.7**	**-297.2**
Actuarial gains arising from defined benefit pension plans and termination benefits	-	-	-	11.1	11.1
Currency translation adjustments	-	-	-11.5	-	-11.5
Changes in the value of shares in associates	-	-	-	0.2	0.2
Deferred taxes on changes in value recognised directly in equity	-	-	-	-4.5	-4.5
Income and expenses recognised directly in equity	**-**	**-**	**-11.5**	**6.8**	**-4.7**
Profit	**-**	**-**	**-**	**109.4**	**109.4**
Total recognised income and expenses	**-**	**-**	**-11.5**	**116.2**	**104.7**
Effects of convertible bonds	0.2	-	-	-1.8	-1.6
Change in minority interest	-	-	-	1.0	1.0
31.12.2007	**38.3**	**4.4**	**-56.5**	**-179.3**	**-193.1**

in € million	Additional paid-in capital	Fair value reserves	Remeasure-ment reserve	Currency translation reserves	Accumulated results	Total
31.12.2005	**38.1**	**4.6**	**5.5**	**-21.4**	**-450.2**	**-423.4**
Transfer of remeasurement reserve (after tax)	-	-	-5.5	-	5.5	0.0
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 equtiy	-	-	-	-	2.7	2.7
Income and expenses recognised directly in equity	**-**	**-0.2**	**-5.5**	**-23.6**	**-2.5**	**-31.8**
Profit	**-**	**-**	**-**	**-**	**155.0**	**155.0**
Total recognised income and expenses	**-**	**-0.2**	**-5.5**	**-23.6**	**152.5**	**123.2**
Effects on 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**

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 2007 (31.12.2006: € 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. In 2006 the revaluation reserve was reclassified 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.

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

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 were recorded directly in equity up to the deconsolidation on 1 June 2006.

Minority interest as of 31 December 2007 is related primarily to the Didier-Werke AG Group, Wiesbaden, Germany, 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.

(12) Information on capital management

The objective of capital management in the RHI Group is to develop and maintain an appropriate capital structure to support growth and acquisition goals as well as a sustainable increase in the value of the company. The improvement in the equity ratio and reduction in debt are reflected in an appropriate dividend policy.

According to the definition of RHI, operating equity is comprised of equity as shown on the balance sheet as well as minority interest and the subordinated liability from the convertible bonds. The underlying assumption is that all convertible bonds certificates will be converted by 2009 at the latest.

in € million	31.12.2007	31.12.2006	Change
Equity as shown on the consolidated balance sheet	95.6	-64.5	160.1
Subordinated convertible bond	17.2	75.5	-58.3
Operating equity	**112.8**	**11.0**	**101.8**

Operating equity rose by € 101.8 million to € 112.8 million in 2007. This development was supported above all by an increase in accumulated results. Based on a balance sheet total of € 1,240.3 million as of 31 December 2007 (31.12.2006: € 1,192.7 million) the operating equity ratio equalled 9.1 percent (31.12.2006: 0.9 percent).

Capital is analysed in accordance with risk, and managed on the basis of net debt to operating equity (net gearing). Interest-bearing net debt represents interest-bearing liabilities minus interest-bearing assets. Net gearing based on operating equity declined from 3,815.5 to 353.5 percent in 2007.

RHI AG is subject to the minimum capital requirements of the Austrian Stock Corporation Act. The articles of association do not include any requirements for capital.

(13) 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 2007, 343 individual convertible bond certificates (31.12.2006: 1,809 individual convertible bond certificates) from tranche A and 83 individual convertible bond certificates (31.12.2006: 125 individual convertible bond certificates) from tranche B had been issued. This represents a total of 426 individual convertible bond certificates that had been issued as of the balance sheet date (31.12.2006: 1,934 individual convertible bond certificates).

The following table shows the development of the bond:

in € million	Units	Nominal	(Discount)/ Premium	Total
31.12.2006	**1,934**	**77.4**	**-1.9**	**75.5**
Conversion	-1,508	-60.3	0.0	-60.3
Interest				
through income statement			0.2	0.2
through equity			1.8	1.8
31.12.2007	**426**	**17.1**	**0.1**	**17.2**

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**

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

in € million	2007	2006
Balance at beginning of year	**5.4**	**5.9**
Interest expense	1.2	5.6
Interest paid	-5.6	-6.1
Balance at year-end	**1.0**	**5.4**

(14) Financial liabilities
Financial liabilities include all interest-bearing obligations of the RHI Group as of the balance sheet date.

in € million	31.12.2007	31.12.2006
Liabilities to financial institutions	343.3	390.7
Other loans	6.1	5.4
Non-current financial liabilities	**349.4**	**396.1**
Liabilities to financial institutions	83.1	89.4
Bank bills	0.1	0.0
Other loans	1.1	0.9
Current financial liabilities	**84.3**	**90.3**
Financial liabilities	**433.7**	**486.4**

Non-current liabilities to financial institutions with a remaining term of more than five years total € 58.1 million (31.12.2006: € 114.9 million).

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

31.12.2007				31.12.2006			
Interest terms fixed until 1)	Weighted average interest rate	Currency	Financial liabilities 2) (in € million)	Interest terms fixed until 1)	Weighted average interest rate	Currency	Financial liabilities 2) (in € million)
2008	Variable interest rate + margin	EUR	23.4	2007	Variable interest rate + margin	EUR	79.6
	EURIBOR + margin	EUR	79.8		EURIBOR + margin	EUR	89.9
	LIBOR + margin	USD	1.2		Interbank rate + margin	INR	0.1
	2.95% + margin	EUR	2.0				
2009	4.25%	EUR	0.1		3.50% + margin	EUR	0.6
	1.51% + margin	EUR	3.3	2008	5.30%	EUR	0.3
2010	1.90% + margin	EUR	33.8		2.95% + margin	EUR	3.4
	1.37% + margin	EUR	3.5	2009	4.25%	EUR	0.2
2011	1.39% + margin	EUR	4.0		1.37% + margin	EUR	4.0
2012	2.50% + margin	EUR	11.1	2010	1.90% + margin	EUR	33.8
2013	2.54% + margin	EUR	260.7		1.23% + margin	EUR	3.5
	1.24% + margin	EUR	3.5	2011	1.27% + margin	EUR	4.0
				2013	2.54% + margin	EUR	260.7
			426.4				**480.1**

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 bank bills and other loans

Liabilities to financial institutions also include export financing (including financing for the acquisition of companies) of € 328.9 million (31.12.2006: € 374.1 million).

Of the total financial liabilities, € 343.0 million (31.12.2006: € 400.2 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, Vienna; VRD Americas B.V., Arnhem, Netherlands; Dolomite Franchi S.p.A., Brescia, Italy (formerly: Refrattari Italiana S.p.A., Genoa); 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 2007, credit lines totalling € 589.3 million (31.12.2006: € 617.7 million) were available to the RHI Group, whereby € 162.9 million were unused as of the balance sheet date (31.12.2006: € 137.6 million).

(15) Personnel provisions
Personnel provisions include the following non-current provisions:

in € million	31.12.2007	31.12.2006
Pensions	241.7	259.9
Termination benefits	52.8	48.9
Other personnel provisions	23.6	22.7
Personnel provisions	**318.1**	**331.5**

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:

	31.12.2007	31.12.2006
Interest rate	4.0% - 8.25%	4.25% - 8.0%
Expected yield on plan assets	2.44% - 8.25%	3.0% - 8.0%
Salary increase	2.0% - 5.0%	2.0% - 3.9%
Pension increase	2.0% - 4.34%	2.0% - 4.0%
Discounts for employee turnover	0 - 6.0%	0 - 5.0%
Retirement age	55 - 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	31.12.2007	31.12.2006
Present value of unfunded pension obligations	220.5	236.2
Present value of wholly or partly funded pension obligations	88.5	87.0
Fair value of plan assets	-67.3	-63.3
Provisions for pensions	**241.7**	**259.9**

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

in € million	2007	2006
Present value of pension obligations at beginning of year	**323.2**	**317.3**
Currency translation	-5.3	-0.5
Change in consolidated companies	14.8	0.0
Current service cost	2.6	2.5
Past service cost	0.0	2.2
Interest cost	14.3	14.0
Actuarial (gains)/losses	-15.5	8.9
Direct pensions payments	-25.1	-23.4
Reclassifications	0.0	2.2
Present value of pension obligations at year-end	**309.0**	**323.2**

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

in € million	2007	2006
Fair value of plan assets at beginning of year	**63.3**	**57.8**
Currency translation	-3.7	-0.1
Change in consolidated companies	7.6	0.0
Expected return on plan assets	2.6	2.2
Actuarial losses	-0.1	-0.9
Direct pension payments	-7.4	-5.5
Contributions to/from external funds	5.0	9.5
Reclassifications	0.0	0.3
Fair value of plan assets at year-end	**67.3**	**63.3**

As of the balance sheet date, the plan assets were comprised of 50 percent (31.12.2006: 53 percent) insurance, 7 percent (31.12.2006: 0 percent) of stocks and 43 percent (31.12.2006: 47 percent) of fixed-interest securities.

The actual income from external fund assets equalled € 2.5 million for 2007 (2006: € 1.3 million).

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

in € million	2007	2006
Provisions for pensions at beginning of year	**259.9**	**259.5**
Currency translation	-1.6	-0.4
Change in consolidated companies	7.2	0.0
Pension cost	14.3	16.5
Actuarial (gains)/losses	-15.4	9.8
Direct pension payments	-17.7	-17.9
Contributions to/from external funds	-5.0	-9.5
Reclassifications	0.0	1.9
Provisions for pensions at year-end	**241.7**	**259.9**

Payments into the plan are expected to total € 22.7 million in 2008. These payments include the planned contributions to external plan assets as well as pension payments that are not covered by appropriate reimbursements from plan assets.

The following amounts were recognised on the income statement:

in € million	2007	2006
Current service cost	2.6	2.5
Past service cost	0.0	2.2
Interest cost	14.3	14.0
Expected return on plan assets	-2.6	-2.2
Pension cost	**14.3**	**16.5**

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	31.12.2007	31.12.2006	31.12.2005	31.12.2004	31.12.2003
Present value of pension obligations	309.0	323.2	317.3	291.4	292.8
Fair value of plan assets	-67.3	-63.3	-57.8	-51.9	-48.2
Deficit	**241.7**	**259.9**	**259.5**	**239.5**	**244.6**

in € million	2007	2006	2005
Actuarial losses/(gains) at beginning of year	**48.0**	**38.2**	**-2.3**
(Gains)/losses of the year			
Subsidiaries	-15.4	9.8	40.5
Associates	-0.2	0.0	0.0
Actuarial losses at year-end	**32.4**	**48.0**	**38.2**

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

in percent	31.12.2007	31.12.2006	31.12.2005
Losses as a percent of the present value of the obligation	2.9	1.7	2.4
Losses/(gains) as a percent of plan assets	0.1	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:

	31.12.2007	31.12.2006
Interest rate	5.25% -11.0%	4.25% - 8.5%
Salary increase	3.0% - 6.25%	3.0% - 6.0%
Discounts for employee turnover	0 - 4.62%	0 - 5.0%
Retirement age	55 - 65 years	54 - 65 years
Mortality tables / Austria	AVÖ-P 1999, Ang	AVÖ-P 1999, Ang

The development of the present value of termination benefit obligations and the recognised liability during the reporting year and prior year is shown below:

in € million	2007	2006
Present value of termination benefit obligations at beginning of year	**48.9**	**46.8**
Currency translation	-0.1	-0.2
Current service cost	2.1	2.5
Interest cost	2.1	2.1
Actuarial losses	3.8	1.8
Termination benefit payments	-3.8	-4.1
Gains on curtailments	-0.2	0.0
Present value of termination benefit obligations at year-end	**52.8**	**48.9**

Payments for termination benefits are expected to total € 3.1 million in 2008.

The termination benefit expense included on the income statements for 2007 and 2006 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	2007	2006
Current service cost	2.1	2.5
Interest cost	2.1	2.1
Gains on curtailments	-0.2	0.0
Termination benefit cost	**4.0**	**4.6**

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

in € million	31.12.2007	31.12.2006	31.12.2005	31.12.2004	31.12.2003
Present value of termination benefit obligations	52.8	48.9	46.8	51.8	47.2

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

in € million	2007	2006	2005
Actuarial losses at beginning of year	**8.9**	**6.9**	**3.0**
Losses/(gains) of the year			
Subsidiaries	3.8	1.8	3.9
Associates	-0.1	0.2	0.0
Actuarial losses at year-end	**12.6**	**8.9**	**6.9**

The following table shows the development of actuarial losses, which reflect actual experience and are based on the present value of obligations as of the balance sheet date:

in percent	31.12.2007	31.12.2006	31.12.2005
Losses/(gains) in percent of obligation's present value	5.7	5.1	-0.4

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
31.12.2006	**19.0**	**0.1**	**3.6**	**22.7**
Use	-0.1	-0.1	-1.8	-2.0
Reversal	-0.8	0.0	0.0	-0.8
Addition	0.3	0.0	3.4	3.7
31.12.2007	**18.4**	**0.0**	**5.2**	**23.6**

(16) Other non-current provisions
This balance sheet item developed as follows:

in € million	Other non-current provisions
31.12.2006	**2.5**
Currency translation	-0.1
Change in consolidated companies	0.6
31.12.2007	**3.0**

The non-current provisions included on the balance sheet are comprised primarily of 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 expected amount required for settlement because the interest effect that would result from discounting is considered immaterial. At the present time, it is not possible to estimate when these provisions will be used.

(17) Trade payables and other liabilities
Other non-current liabilities of € 6.4 million (31.12.2006: € 4.5 million) include subsidies of € 4.5 million (31.12.2006: € 3.9 million) granted by third parties, which are designed above all to support capital investments. The current portion of recognised subsidies equals € 0.5 million (31.12.2006: € 0.5 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.

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

in € million	31.12.2007	31.12.2006
Trade payables	144.4	150.8
Prepayments received on orders	14.5	10.4
Accounts payable to associates	1.4	0.8
Other current payables	91.6	84.3
Trade and other payables	**251.9**	**246.3**

Other current liabilities comprise the following items:

in € million	31.12.2007	31.12.2006
Other taxes	13.1	11.8
Liabilities employees and board members	45.1	36.2
Interest liabilities on convertible bonds	1.0	5.4
Deferred charges	0.0	0.2
Financial liabilities - held for trading	0.4	0.4
Other	32.0	30.3
Other current payables	**91.6**	**84.3**

Liabilities to employees and board members consist primarily of obligations for payroll taxes and employee-related duties, unused vacation and flexitime credits.

(18) Current provisions

The following table shows the development of current provisions:

in € million	Demolition and disposal costs, environmental damages	Warranties	Guarantees provided	Claims for compen-sation	Legal disputes	Total
31.12.2006	**6.6**	**23.7**	**20.4**	**23.9**	**0.3**	**74.9**
Currency translation	0.0	-0.1	0.0	0.0	0.0	-0.1
Change in consolidated companies	0.1	0.0	0.0	0.0	0.0	0.1
Use	-0.3	-5.1	-0.1	0.0	-0.1	-5.6
Reversal	-0.8	-1.3	-2.1	-4.4	0.0	-8.6
Addition	0.6	3.5	1.1	0.7	0.0	5.9
31.12.2007	**6.2**	**20.7**	**19.3**	**20.2**	**0.2**	**66.6**

Demolition and disposal costs, environmental damages

The current provisions for demolition and disposal costs as included on the balance sheet total € 4.9 million (31.12.2006: € 5.0 million). Based on contractual or legal obligations, the RHI Group also expects claims of € 1.3 million (31.12.2006: € 1.6 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.

(19) Contingent liabilities

The components of contingent liabilities are shown below:

in € million	31.12.2007	31.12.2006
Liabilities from sureties	4.1	4.9
Liabilities from guarantees	19.9	15.5
Other	0.1	0.0
Contingent liabilities	**24.1**	**20.4**

There were no contingent liabilities attributable to associates as of 31 December 2007 (31.12.2006: € 1.0 million). No obligations were assumed for non-consolidated subsidiaries.

(20) Other financial obligations
Other financial obligations consist of the following items:

	Total	Remaining term		
in € million	31.12.2007	up to 1 year	2 to 5 years	over 5 years
Obligations from rental and leasing contracts	41.3	8.7	18.6	14.0
Capital commitments	12.7	12.7	0.0	0.0
Miscellaneous financial obligations	21.0	4.3	16.6	0.1
Other financial obligations	**75.0**	**25.7**	**35.2**	**14.1**

	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**

Rental and leasing obligations are comprised primarily of obligations arising from rental contracts for plant buildings and offices as well as 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.

Notes to Individual Items on the Income Statement

(21) Revenues
Revenues are classified as follows:

in € million	2007	2006
Revenues (not including construction contracts)	1,471.5	1,323.9
Revenues from construction contracts	14.3	11.9
Revenues	**1,485.8**	**1,335.8**

(22) Special direct distribution costs
The individual components of this item are shown in the following table:

in € million	2007	2006
Freights	79.0	73.2
Licences	3.2	2.5
Commissions	35.0	31.8
Other	7.4	0.3
Special direct distribution costs	**124.6**	**107.8**

(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.

(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.

For comparative purposes, the prior year distribution costs and administrative expenses were adjusted by € 3.4 million to reflect a change in the definition of administrative expenses.

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

(26) Expenses arising from plant shutdown
On 10 December 2007 the Management Board of RHI AG decided to close the Lota plant in Chile in order to concentrate production at a single site in this country. Based on this decision, plans also call for the sale of property, plant and equipment from the Lota facility.

The assets belonging to this plant were classified as a disposal group und valued in accordance with IFRS 5. The write-down of non-current assets to fair value less costs to sell resulted in an impairment loss of € 2.3 million. In addition, redundancy expenses of € 0.7 million were recognised to profit or loss. On the income statement, the effects of this plant shutdown are allocated to the segment Raw Materials, Production, other.

The carrying value of the assets held for sale, which are included under property, plant and equipment, and deferred tax assets totals € 0.5 million.

(27) Other income
Other income includes:

in € million	2007	2006
Gains from the disposal of property, plant and equipment and intangible assets	2.7	2.6
Other	7.4	7.3
Other income	**10.1**	**9.9**

(28) Other expenses
Other expenses include the following:

in € million	2007	2006
Losses from the disposal of property, plant and equipment and intangible assets	1.1	1.8
Foreign exchange losses	3.3	0.1
Other	4.8	7.3
Income from the reversal of provisions	-8.6	-4.6
Other expenses	**0.6**	**4.6**

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.

(29) Expense categories
Expenses are classified by category as follows:

in € million	2007	2006
Cost of material and other production services	750.2	686.1
Staff costs	325.5	295.5
Depreciation of property, plant and equipment and amortisation of other intangible assets	49.0	45.7

(30) Personnel expenses
The individual components of personnel expenses are listed below:

in € million	2007	2006
Wages and salaries	251.7	225.8
Pensions		
Defined benefit plans	0.0	2.5
Defined contribution plans	2.1	1.9
Termination benefits		
Defined benefit plans	1.9	2.5
Defined contribution plans	1.3	0.5
Voluntary payments	2.2	0.3
Fringe benefits	66.3	62.0
Personnel costs	**325.5**	**295.5**

(31) Financial results
Financial results include interest results and other financial results.

in € million	2007	2006
Interest results	-37.7	-24.7
Other financial results	-1.5	-0.3
Financial results	**-39.2**	**-25.0**

Interest results were calculated as follows:

in € million	2007	2006
Gains from securities and non-current receivables	2.2	1.9
Other interest and similar income	2.0	5.2
Interest and similar expenses	-41.9	-31.8
Interest results	**-37.7**	**-24.7**

Interest and similar expenses include the interest portion of the addition to personnel provisions, which equals € 16.4 million (2006: € 16.1 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	2007	2006
Income from investments	0.4	0.6
Impairment of financial assets	-1.9	-0.9
Other financial results	**-1.5**	**-0.3**

(32) 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	2007	2006
Current tax expense	24.7	11.4
Deferred tax (income)/expense relating to the origination and reversal of		
temporary differences	-1.9	-3.7
tax loss carryforwards	-7.3	5.6
	-9.2	1.9
Income taxes	**15.5**	**13.3**

Income tax expense of € 15.5 million for 2007 is € 16.1 million lower than the arithmetic income tax expense of € 31.6 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	2007	2006
Profit before income taxes	**126.5**	**110.4**
Arithmetic tax expense	**31.6**	**27.6**
Different foreign tax rates	3.9	3.2
Expenses not deductible for tax purposes	1.9	3.7
Income not subject to tax	-3.1	-3.2
Reduction in actual income tax expense due to utilisation of previously unrecognised tax losses and temporary differences	-26.4	-15.5
Reduction in deferred income tax expense due to utilisation of previously unrecognised tax losses and temporary differences	-3.2	-0.6
Deferred tax income due to changes in tax rates	-0.1	-0.3
Deferred income tax relating to prior periods	-0.4	2.2
Current income tax relating to prior periods	5.8	-2.4
Other	5.5	-1.4
Recognised tax expense	**15.5**	**13.3**

The position other is comprised primarily of non-deductible foreign withholding taxes.

(33) Gain on discontinued operations

The gain on discontinued operations comprises the following items:

in € million	1.1. - 31.5.2006
Revenues	106.2
Special direct distribution costs	-9.9
Cost of sales	-71.6
Gross profit	**24.7**
Distribution costs	-9.2
Administrative expenses	-8.3
Other income	0.4
Other expenses	-0.3
Operating results	**7.3**
Financial results	-2.1
Profit before income taxes	**5.2**
Income taxes	-1.9
Profit for the year on discontinued operations	**3.3**
Profit for the year of discontinued operations	57.5
Profit for the year from discontinued operations	**60.8**

Systematic depreciation on the non-current assets in the Insulating Division ceased with the classification of these assets as discontinued operations, i.e. on 1 October 2005. The measurement of the discontinued operations in accordance with IFRS 5 did not lead to any impairment charges in 2005 and 2006.

The sale of the discontinued operations did not result in an increase or decrease in taxes.

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 statements 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.

(34) 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	2007	2006
Profit after income taxes	111.0	97.1
Adjustments for		
Income taxes	15.5	13.3
Scheduled depreciation and amortisation	48.2	45.4
Impairment losses on property, plant and equipment and intangible assets	3.1	0.3
Impairment losses on financial assets	1.9	0.9
Proceeds from sale of non-current assets	-1.6	-0.8
Interest result	37.7	24.7
Dividend income	-0.4	-0.6
Result from associates	-1.4	-1.6
Other non-cash changes	-8.4	-6.5
Change in working capital		
Inventories	-53.2	-24.0
Trade receivables	44.3	-40.9
Other receivables and assets	-7.4	13.9
Provisions	-27.4	-21.8
Trade payables	-5.8	8.6
Other liabilities	13.7	-45.5
Cash flow from operating activities	**169.8**	**62.5**
Income taxes paid	-15.0	-11.6
Net cash flow from operating activities	**154.8**	**50.9**

(35) 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.

As of 31 December 2007 payments had not been received for the sale of property, plant and equipment totalling € 1.3 million in 2007. Moreover, the contribution of land usage rights with a value of € 3.5 million to Liaoning RHI Jinding Magnesia Co., Ltd., Dashiqiao City, PR China by the minority shareholders is presented as a non-cash transaction.

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.

(36) Cash flow from financing activities

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

The conversion of convertible bonds totalling € 60.3 million (2006: € 22.6 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.

(37) Cash flow from discontinued operations

Cash flow from the discontinued Insulating Division is as follows:

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

Other Disclosures

(38) Segment reporting

Primary segmentation by division in 2007

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. The prior year information on the Insulating Division is related to the period from January to May.

in € million	Steel	Industrial	Raw Materials, Production, other	Elimination	Continuing operations
External revenues	891.8	536.6	57.4		1,485.8
Intragroup revenues	0.0	0.0	919.7	-919.7	0.0
Segment revenues	**891.8**	**536.6**	**977.1**	**-919.7**	**1,485.8**
Operating results	82.7	66.7	14.9		164.3
Financial results					-39.2
Results from associates			1.4		1.4
Profit before income taxes					126.5
Income taxes					-15.5
Profit					**111.0**
Profit attributable to					
equity holders of RHI AG					109.4
minority interest					1.6

in € million	Steel	Industrial	Raw Materials, Production, other	Continuing operations
Investments in associates			12.4	12.4
Other assets	249.1	139.9	680.4	1,069.4
Unattributed assets				158.5
Total assets				**1,240.3**
Debt	142.1	79.8	388.3	610.2
Unattributed debts				534.5
Total debt				**1,144.7**
Investments	4.8	0.8	73.2	**78.8**
Depreciation and amortisation	4.3	1.4	42.5	**48.2**
Impairment		0.8	2.3	**3.1**

Primary segmentation by division in 2006

in € million	Steel	Industrial	Raw Materials, Production, other	Elimi-nation	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 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 debts				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**	

Secondary segmentation by region
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.

The definition of the regions is generally based on geographic rules. In contrast to this procedure, the revenues, investments and assets relating to Turkey and the countries of the former Soviet Union are allocated to the region Other Europe.

The following table provides a summary of information on continuing operations for 2007 and 2006:

	1.1. - 31.12.2007		31.12.2007	1.1. - 31.12.2006		31.12.2006
in € million	Revenues	Investments	Assets	Revenues	Investments	Assets
Austria	69.2	27.0	431.8	70.2	26.8	452.7
Rest of EU	548.1	10.2	286.0	494.2	11.0	269.8
Other Europe	130.9	0.7	27.0	117.6	0.2	28.3
North and South America	374.2	4.9	212.7	353.1	4.0	173.8
Asia-Pacific, Africa	363.4	36.0	153.4	300.7	9.8	111.9
Consolidation and not allocated	0.0	0.0	129.4	0.0	0.0	156.2
Total	**1,485.8**	**78.8**	**1,240.3**	**1,335.8**	**51.8**	**1,192.7**

The revenues and investments of the discontinued Insulating Division for the period from January to May 2006 are classified by region as follows:

in € million	Revenues	Investments
Austria	15.8	1.8
Rest of EU	65.8	2.2
Other Europe	24.1	0.2
Asia-Pacific, Africa	0.5	0.0
Total	**106.2**	**4.2**

(39) 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.

	2007	2006
Profit attributable to equity holders of RHI AG (in € million)	109.4	94.2
Weighted average number of shares	35,741,836	26,674,717
Basic earnings per share (in €)	**3.06**	**3.53**

The share of profit attributable to the shareholders of RHI AG is based on profit of € 111.0 million from continuing operations (2006: € 97.1 million) minus the € 1.6 million share of profit attributable to minority interests (2006: € 2.9 million).

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.

	2007	2006
Profit attributable to equity holders of RHI AG (in € million)	109.4	94.2
Plus interest expense of convertible bonds (in € million)	1.4	6.3
Less current taxes (in € million)	-0.4	-1.6
Adjusted result for the period (in € million)	110.4	98.9
Weighted average number of shares	35,741,836	26,674,717
Potential number of shares from convertible bonds	4,077,203	13,144,322
Number of diluted shares	39,819,039	39,819,039
Diluted earnings per share (in €)	**2.77**	**2.48**

(40) Additional disclosures on financial instruments
Financial assets and liabilities at (amortised) cost
The following table shows the carrying values and fair values of the financial assets and liabilities that are carried at (amortised) cost:

	31.12.2007		31.12.2006	
in € million	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Prepayments on investments on subsidiaries	0.4	0.4	0.0	0.0
Non-current receivables including current portion	2.4	2.4	2.7	2.7
Trade receivables and other current receivables	283.8	283.8	319.0	319.0
Cash and cash equivalents	35.0	35.0	66.7	66.7
Financial liabilities				
Subordinated convertible bonds	17.2	17.2	75.5	75.5
Other non-current financial liabilities	349.4	327.4	396.1	378.9
Trade and other current liabilities [1)]	251.5	251.5	245.9	245.9
Current financial liabilities	84.3	84.3	90.3	90.3

1) Excluding financial liabilities held for trading

The remaining terms of trade receivables, other receivables and liabilities as well as cash and cash equivalents are generally short. Therefore, the carrying values of these items approximate fair value as of the balance sheet date.

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

Financial assets and liabilities at fair value
The carrying amounts of financial assets and liabilities at fair value are shown in the following table:

in € million	31.12.2007	31.12.2006
Financial assets		
Non-current financial assets - available for sale	39.1	41.1
Current financial assets - available for sale	2.9	2.9
Financial assets - held for trading	0.5	0.4
Financial liabilities		
Financial liabilities - held for trading	0.4	0.4

The fair value of publicly traded, available-for-sale fund shares is based on the relevant market prices as of the balance sheet date. The fair value of shares in non-consolidated subsidiaries and other companies that are not publicly traded is calculated by discounting the expected cash flows or determined on the basis of similar transactions.

Net results by valuation category in accordance with IAS 39

The effect of financial instruments on the income and expenses recognised in 2007 and 2006 is shown in the following table, classified according to the valuation categories defined in IAS 39:

in € million	2007	2006
Net gain on financial assets classified as available for sale	0.7	1.4
Net loss from loans and receivables as well as financial liabilities	-27.9	-12.3
Net gain on financial assets and financial liabilities classified as held for trading	0.1	0.6

The net gain on available-for-sale financial assets comprises income from securities, dividends and impairment losses as well as the gains or losses on sale. As in the prior year, the net results do not include any changes in the fair value of financial assets available for sale that were transferred from equity to the income statement. There were no unrealised gains and losses in 2007 that would have been recognised directly in equity and included in the calculation of the net gain.

The net loss arising from loans and receivables as well as financial liabilities includes interest income and expense, changes in valuation adjustments, payments received on and increases in the value of loans and receivables previously written off, foreign exchange gains and losses as well as gains and losses on derecognition.

The net gain on financial assets and financial liabilities held for trading includes changes in the market value of derivatives in orders as well as embedded derivatives in trade receivables that are denominated in a currency other than the functional currency of the RHI Group.

Foreign exchange risks

Foreign exchange risks in the sense of IFRS 7 arise through financial instruments that are denominated in a currency other than the functional currency of the RHI Group (in the following, foreign currency) and are monetary in nature. The most important primary monetary financial instruments include trade receivables and trade payables, cash and cash equivalents, and financial liabilities. Equity instruments held are not monetary, and are therefore not linked with any foreign exchange risk in the sense of IFRS 7.

The majority of foreign currency financial instruments in the RHI Group result from operating activities, above all from intergroup financing transactions, unless the foreign exchange effects recognised to profit or loss on non-current shareholder loans are eliminated in accordance with IAS 21. Major foreign currency provisions are also included in the analysis of risk, in accordance with the definition used by RHI.

The following table shows the foreign currency positions of the RHI Group in the major currencies as of 31 December 2007:

in € million	USD	EUR	ZAR	Other	Total
Financial assets	212.4	21.2	2.9	6.8	243.3
Financial liabilities and provisions	-208.7	-19.3	-0.5	-3.9	-232.4
Net foreign currency position	**3.7**	**1.9**	**2.4**	**2.9**	**10.9**

The foreign currency positions as of 31 December 2006 are as follows:

in € million	USD	EUR	ZAR	Other	Total
Financial assets	138.5	22.2	3.8	8.6	173.1
Financial liabilities and provisions	-147.4	-21.8	-0.1	-5.3	-174.6
Net foreign currency position	**-8.9**	**0.4**	**3.7**	**3.3**	**-1.5**

The disclosures required by IFRS 7 for foreign exchange risks include a sensitivity analysis that shows the effects of hypothetical changes in the relevant risk variables on profit or loss and equity. In general, all non-functional currencies in which the Group enters into financial instruments are considered to be relevant risk variables. The effects on a particular reporting period are determined by applying the hypothetical changes in these risk variables to the financial instruments held by the Group as of the balance sheet date. It is assumed that these holdings on the balance sheet date are representative for the entire year. The sensitivity analysis does not include the foreign exchange differences that result from translating the net asset positions of the foreign Group companies into the Group currency, the euro.

A 10 percent increase or decrease in the relevant functional currency versus the following major currencies as of 31 December 2007 would have had the following effect on profit or loss and equity (both excluding income taxes):

	Appreciation of 10%		Devaluation of 10%	
in € million	Loss	Equity	Gain	Equity
US dollar	-0.4	0.0	0.4	0.0
Euro	-0.2	-0.2	0.2	0.2
South African rand	-0.2	-1.0	0.3	1.2
Other currencies	-0.3	-8.0	0.3	9.9

The hypothetical effect on profit or loss as of 31 December 2006 can be summarised as follows:

	Appreciation of 10%		Devaluation of 10%	
in € million	Gain/(Loss)	Equity	Gain/(Loss)	Equity
US dollar	0.8	2.0	-1.0	-2.4
South African rand	-0.3	-0.3	0.4	0.4
Other currencies	-0.4	-6.0	0.5	7.2

Interest rate risks

The exposure to interest rate risks is presented through sensitivity analyses in accordance with IFRS 7. These analyses show the effects of changes in market interest rates on interest payments, interest income and interest expense and, where applicable, also on equity.

The interest rate sensitivity analysis is based on the following assumptions:

Changes in the market interest rates of primary fixed-interest financial instruments only affect profit or loss when these items are measured at fair value. Therefore, the fixed-interest financial instruments carried at amortised cost are not exposed to interest rate risk in the sense of IFRS 7.

The RHI Group measures fixed-interest financial assets and financial liabilities at amortised cost, and did not elect to use the option that permits the measurement of these items at fair value through profit or loss. Therefore, a hypothetical change in the market interest rates for these financial instruments as of the balance sheet date would have had no effect on profit and loss or equity.

Changes in market interest rates have an effect on the interest result from primary, variable interest financial instruments and are therefore included in the sensitivity analysis. If the market interest rate as of 31 December 2007 had been 100 basis points higher or lower, profit would have been € 0.6 million (31.12.2006: € 1.0 million) lower or higher. This hypothetical effect on profit is related solely to primary, variable interest net financial liabilities and is unchanged from the prior year.

Other financial market risk

RHI holds shares in an investment fund, which were purchased above all as coverage for employee-related provisions. The market value of these shares is influenced by fluctuations on the volatile international stock and bond markets. In all probability, the loss arising from the change in the value of this investment fund will not exceed € 1.7 million (2006: € 1.9 million) within one year.

(41) 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	2007	2006	31.12.2007	31.12.2006
MAGNIFIN Magnesiaprodukte GmbH & Co KG, St. Jakob, Austria	2.3	2.4	0.9	0.6
Shandong RHI New Materials Co., Ltd., Zibo City, PR China	1.7	0.4	0.0	0.7
Related companies	**4.0**	**2.8**	**0.9**	**1.3**
Deutsche Heraklith GmbH, Simbach, Germany	-	0.4	-	-
Heraklith AG, Ferndorf, Austria	-	1.0	-	-
Heraklith Consulting & Engineering GmbH, Fürnitz, Austria	-	2.1	-	-
Discontinued operations	**-**	**3.5**	**-**	**-**

	Volume of services provided by related parties		Payables	
in € million	2007	2006	31.12.2007	31.12.2006
MAGNIFIN Magnesiaprodukte GmbH & Co KG, St. Jakob, Austria	1.3	0.1	1.2	0.8
Shandong RHI New Materials Co., Ltd., Zibo City, PR China	0.2	0.0	0.2	0.0
Related companies	**1.5**	**0.1**	**1.4**	**0.8**

Related persons
The income statement for 2007 includes expenses of € 7.5 million (2006: € 5.3 million) for the Management Board. Liabilities and provisions of € 4.5 million (31.12.2006: € 3.3 million) were recognised for the Management Board. Salaries and other current benefits totalling € 4.4 million were paid to the members of the Management Board during the reporting year (2006: € 2.8 million).

Payments made to former members of the Management Board and their surviving dependents totalled € 2.6 million (2006: € 0.3 million). This amount includes € 2.3 million (2006: € 0.0 million) of payments made in connection with the termination of employment.

The members of the Supervisory Board received remuneration of € 0.2 million (2006: € 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.

The members of the Management Board and Supervisory Board are listed under note 44.

(42) Personnel
The average number of employees in the RHI Group was:

	2007	2006
Salaried employees	2,966	2,651
Waged workers	4,339	3,875
Continuing operations	**7,305**	**6,526**
Discontinued operations	**–**	**2,234**

(43) RHI Group Companies as of 31 December 2007

The following table lists the stakes held by the RHI Group:

		Type of consolidation	Parent	Currency	Nominal capital in local currency	Share in %
1.	RHI AG, Vienna, Austria	F		EUR	272,348,970	
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	14.,34.	PEN	31,021	100.00
4.	Didier Belgium N.V., Evergem, Belgium	F	64.	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.,26.	EUR	63,000,000	97.54
7.	Dolomite Franchi S.p.A., Brescia, Italy (formerly: Refrattari Italiana S.p.A., Genoa)	F	26.	EUR	4,160,000	100.00
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 Brasil Holding B.V., Arnhem, Netherlands	F	66.	EUR	18,000	100.00
10.	Dutch MAS B.V., Arnhem, Netherlands	F	6.	EUR	30,000	100.00
11.	Dutch US Holding B.V., Arnhem, Netherlands	F	66.	EUR	18,000	100.00
12.	FC Technik AG, Winterthur, Switzerland	F	26.	CHF	100,000	51.00
13.	Full Line Supply Africa (Pty) Limited, Sandton, South Africa	F	26.	ZAR	100	100.00
14.	GIX International Limited, Wakefield, Great Britain	F	17.	GBP	1,004	100.00
15.	INDRESCO U.K. Ltd., Wakefield, Great Britain	F	14.	GBP	10,029,219	100.00
16.	Isolit-Isolier GmbH, Vienna, Austria	F	26.	EUR	646,788	100.00
17.	Latino America Refractories ApS, Copenhagen, Denmark	F	73.	EUR	20,000	100.00
18.	Liaoning RHI Jinding Magnesia Co., Ltd., Dashiqiao City, PR China	F	26.	CNY	250,000,000	80.00
19.	LLC "RHI CIS", Moscow, Russia	F	1.,26.	RUB	3,500,000	100.00
20.	Lokalbahn Mixnitz-St. Erhard AG, Vienna, Austria	F	57.	EUR	119,397	100.00
21.	Magnesit Anonim Sirketi, Eskisehir, Turkey	F	10.	TRY	16,750,000	100.00
22.	Magnesitwerk Aken Vertriebsgesellschaft mbH, Aken, Germany	F	6.	EUR	130,000	100.00
23.	MARVO Feuerungs- und Industriebau GmbH, Kerpen, Germany	F	6.	EUR	513,450	100.00
24.	MARVO Feuerungs- und Industriebau GmbH, Siersleben, Germany	F	23.	EUR	25,565	100.00
25.	Producción RHI México, S. de R.L. de C.V., Ramos Arizpe, Mexico	F	49.,73.	MXN	9,441,250	100.00
26.	Radex Vertriebsgesellschaft mbH, Leoben, Austria	F	70.	EUR	60,000,000	100.00
27.	REFEL S.p.A., San Vito al Tagliamento, Italy	F	6.	EUR	5,200,000	100.00
28.	Refractarios RHI CHILE LTDA., Santiago, Chile	F	14.,73.	CLP	12,073,359,422	100.00
29.	Refractory Intellectual Property GmbH, Vienna, Austria	F	1.	EUR	17,500	100.00
30.	Refractory Intellectual Property GmbH & Co KG, Vienna, Austria	F	1.,29.	EUR	10,000	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	17.,73.	ARS	10,000	100.00
33.	RHI Canada Inc., Burlington, Canada	F	73.	CAD	11,500,002	100.00
34.	RHI CHILE S.A., Santiago, Chile	F	14.,73.	CLP	12,774,407,413	100.00
35.	RHI Clasil Limited, Hyderabad, India	F	73.	INR	184,000,000	51.00
36.	RHI Dinaris GmbH, Wiesbaden, Germany	F	64.	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	64.	EUR	500,000	100.00
39.	RHI India Private Limited, Navi Mumbai, India	F	73.	INR	835,000	60.00
40.	RHI Isithebe (Pty) Limited, Sandton, South Africa	F	26.	ZAR	1,000	100.00
41.	RHI Monofrax, Ltd., Wilmington, USA	F	11.	USD	3,558,751	100.00
42.	RHI Monofrax PPE LLC, Wilmington, USA	F	41.	USD	1,000	100.00
43.	RHI-Refmex, S.A. de C.V., Ramos Arizpe, Mexico	F	49.,73.	MXN	163,937,660	100.00

		Type of consolidation	Parent	Currency	Nominal capital in local currency	Share in %
44.	RHI Refractories Africa (Pty) Ltd., Sandton, South Africa	F	31.	ZAR	10,000	100.00
45.	RHI Refractories Andino C.A., Puerto Ordaz, Venezuela	F	73.	VEB	1,600,000,594	100.00
46.	RHI Refractories Asia Ltd., Hong Kong, PR China	F	65.	HKD	1,000	100.00
47.	RHI Refractories Asia Pacific Pte. Ltd., Singapore	F	1.	SGD	300,000	100.00
48.	RHI Refractories (Dalian) Co., Ltd., Dalian, PR China	F	26.	CNY	287,273,962	100.00
49.	RHI Refractories España, S.L., Lugones, Spain	F	6.,10.	EUR	6,930,000	100.00
50.	RHI Refractories France S.A., Breuillet, France	F	65.	EUR	703,800	100.00
51.	RHI Refractories Holding Company, Dover, USA	F	73.	USD	1	100.00
52.	RHI Refractories Ibérica, S.L., Madrid, Spain	F	65.	EUR	30,050	100.00
53.	RHI Refractories Italiana s.r.l., Brescia, Italy	F	65.	EUR	110,000	100.00
54.	RHI Refractories Liaoning Co., Ltd., Bayuquan, PR China	F	26.	CNY	180,000,000	60.00
55.	RHI Refractories Mercosul Ltda, Sao Paulo, Brazil	F	73.	BRL	49,250	99.50
56.	RHI Refractories Nord AB, Stockholm, Sweden	F	65.	SEK	1,000,000	100.00
57.	RHI Refractories Raw Material GmbH, Vienna, Austria	F	1.,26.	EUR	35,000	100.00
58.	RHI Refractories Site Services GmbH, Wiesbaden, Germany	F	6.	EUR	1,025,000	100.00
59.	RHI Refractories (Site Services) Ltd., Cirencester, Great Britain	F	60.	GBP	1,350,000	100.00
60.	RHI Refractories Spaeter GmbH, Urmitz, Germany	F	6.	EUR	256,157	66.67
61.	RHI Refractories UK Limited, Clydebank, Great Britain	F	6.	GBP	8,875,000	100.00
62.	RHI Rückversicherungs AG, Vaduz, Liechtenstein	F	26.	EUR	900,000	100.00
63.	RHI Trading (Dalian) Co., Ltd., Dalian, PR China	F	26.	CNY	39,865,230	100.00
64.	RHI Urmitz AG & Co KG, Urmitz, Germany	F	5.,6.	EUR	2,454,250	100.00
65.	SAPREF AG für feuerfestes Material, Basel, Switzerland	F	73.	CHF	4,000,000	100.00
66.	Veitscher Vertriebsgesellschaft mbH, Vienna, Austria	F	1.	EUR	36,336	100.00
67.	Veitsch-Radex America Inc., Burlington, Canada	F	33.	CAD	1	100.00
68.	Veitsch-Radex America Inc., Mokena, USA	F	33.	USD	100	100.00
69.	Veitsch-Radex GmbH, Vienna, Austria	F	1.	EUR	35,000	100.00
70.	Veitsch-Radex GmbH & Co, Vienna, Austria	F	1.,69.	EUR	106,000,000	100.00
71.	Veitsch-Radex Vertriebsgesellschaft mbH, Vienna, Austria	F	1.	EUR	36,336	100.00
72.	VERA FE, Dnipropetrovsk, Ukraine	F	26.	UAH	192,600	100.00
73.	VRD Americas B.V., Arnhem, Netherlands	F	1.,26.	EUR	33,750,450	100.00
74.	Zimmermann & Jansen GmbH, Düren, Germany	F	6.	EUR	3,835,000	100.00
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	50.	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	7.	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	26.	CNY	60,600,000	50.00
82.	Società Dolomite Italiana SDI S.p.A., Gardone Val Trompia, Italy	E	7.	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.,58.,64.	DEM	50,000	38.00
86.	Zimmermann & Jansen Siam Co. Ltd., Rayong, Thailand	I	74.	THB	4,000,000	39.80

F.....full consolidation
E.....associates, equity consolidation
N.....not consolidated
I......investments

i.L....in liquidation

(44) Significant events after the balance sheet date

Five individual convertible bond certificates from tranche A have been registered for conversion into a total of 27,500 new RHI shares since 1 January 2008. Subject to the receipt of all necessary approvals and recording in the company register, this conversion will raise the total number of shares to 37,503,539 and increase the equity of RHI AG by € 0.2 million.

On 11 January 2008 RHI concluded an agreement with Cookson Group plc, London, Great Britain, for the acquisition of two plants in Scotland (Bonnybridge) and the USA (Saybrook). These plants produce carbon-bonded ceramic products and are currently operated by Foseco plc, Tamworth, Great Britain. The transaction will be closed as soon as all necessary approvals, in particular from the cartel authorities in the USA and Europe, are received for the acquisition of Foseco plc by Cookson plc.

Since the opening balance sheets of the acquired plants are not yet available, it is not possible to provide any well-founded information on the effect of this transaction on the consolidated balance sheet.

Members of the Management Board

Andreas Meier, Vienna, Chairman
- Chairman since 15 January 2007
- Member from 1 January 2007 to 14 January 2007
- Vice-Chairman from 14 January 2002 to 31 December 2006
- Member from 1 January 1999 to 13 January 2002

Stefano Colombo, Vienna, Vice-Chairman
- Member and Vice-Chairman since 6 June 2007

Giorgio Cappelli, Vienna
- Member since 1 January 2007

Manfred Hödl, Vienna
- Member since 1 January 2007

Rudolf Payer, Vienna
- Member since 6 June 2007

The following persons were also members of the Management Board during the reporting year: Helmut Draxler, Vienna (Chairman from 14 January 2002 to 14 January 2007) and Eduard Zehetner, Vienna (Vice-Chairman from 1 January to 5 June 2007 and member from 19 November 2001 to 31 December 2006).

Members of the Supervisory Board

Michael Gröller, Vienna, Chairman

Herbert Cordt, Vienna, Vice-Chairman
- Vice-Chairman since 11 July 2007
- Member since 1 June 2007

Helmut Draxler, Vienna, Vice-Chairman
- Vice-Chairman since 11 July 2007
- Member since 1 June 2007

Gerd Peskes, Düsseldorf, Germany
- Vice-Chairman up to 11 July 2007

Mark J. Eckhout, St. Charles, USA
- Member since 1 June 2007

Hubert Gorbach, Frastanz
- Member since 1 June 2007

Stanislaus Prinz zu Sayn-Wittgenstein-Berleburg, Munich, Germany

Employee representatives:

Martin Kowatsch, Radenthein

Leopold Miedl, Vienna

Franz Reiter, Hochfilzen (since 18 January 2008)

Karl Wetzelhütter, Breitenau am Hochlantsch

The following persons were also members of the Supervisory Board during the reporting year: Gerd Klaus Gregor, Vienna (up to 1 June 2007), Cornelius Grupp, Lilienfeld (up to 1 June 2007), Erhard Schaschl, Vienna (up to 1 June 2007) and Kurt Waniek, Vienna (up to 1 June 2007) as well as the employee representative Josef Horn, Trieben (up to 31 December 2007).

Vienna, 11 March 2008

The Management Board

Andreas Meier
m.p.

Stefano Colombo
m.p.

Giorgio Cappelli
m.p.

Manfred Hödl
m.p.

Rudolf Payer
m.p.

Independent 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 to 31 December 2007. Those financial statements comprise the balance sheet as at 31 December 2007, and the income statement, statement of income and expenses recognized in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) 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 Austrian Standards on Auditing and International Standards on Auditing, 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 consolidated 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 judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. An audit also includes evaluation of the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 2007 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Report on Other Legal Requirements

Law and regulation applicable in Austria require us to perform audit procedures whether the group management report is consistent with the consolidated financial statements and whether the other disclosures made in the group management report do not give rise to misconception of the position of the group.

In our opinion, the Group Management Report is consistent with the consolidated financial statements.

Vienna, 11 March 2008

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Peter Ertl
Certified Public Accountant
m.p.

Martin Wagner
Certified Public Accountant
m.p.

Statement by the Management Board

The members of the Management Board hereby declare that the annual financial statements of the RHI Group, which were prepared in accordance with International Financial Reporting Standards, were developed according to the best of their knowledge and belief and provide a true and fair view of the combined asset, financial and earnings position of all companies included in the consolidation. The results of the financial year ending on 31 December 2007 do not necessarily permit conclusions on the future development of results.

Furthermore, the management report provides a true and fair view of the asset, financial and earnings position of the RHI Group and describes the major risks and uncertainties to which the Group is exposed.

Vienna, 11 March 2008

The Management Board

Andreas Meier
Chairman
m.p.

Stefano Colombo
Vice-Chairman, Finances
m.p.

Giorgio Cappelli
Steel Division
m.p.

Manfred Hödl
Industrial Division
m.p.

Rudolf Payer
Accounting,Taxes and IT
m.p.

Financial Statements of RHI AG 2007 in accordance with UGB

Management Report

As was pointed out at the beginning of the management report of the RHI Group, the option to summarise 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, 11 March 2008

Management Board

Andreas Meier
m.p.

Stefano Colombo
m.p.

Giorgio Cappelli
m.p.

Manfred Hödl
m.p.

Rudolf Payer
m.p.

Report of the Supervisory Board

The Supervisory Board of RHI AG, Vienna, held eight meetings during the course of 2007. 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.

The financial statements of RHI AG and the consolidated financial statements 2007 were audited and certified without qualification by KPMG Austria GmbH, Vienna, certified public accountants, auditors and tax consultants, duly appointed auditors at the 28th 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 8 April 2008, 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 2007 and approved these at its meeting on 24 April 2008. The financial statements of RHI AG have thus been approved in accordance with § 125 (2) AktG (Austrian Stock Corporation Act). At the same meeting, the Supervisory Board approved the consolidated financial statements.

The Supervisory Board approved the Management Board's proposed appropriation of earnings.

The auditing committee held three meetings in 2007; the presidium (at the same time personnel committee) held six 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 2008

Michael Gröller
Chairman

Balance Sheet of AG 2007[1]

in € 1.000	31.12.2007	31.12.2006
ASSETS		
Fixed assets		
Intangible assets	17,560.5	23,621.8
Property, plant and equipment	14,466.0	12,619.8
Financial assets	615,080.0	609,552.6
	647,106.5	**645,794.2**
Current assets		
Inventories	32,989.2	28,410.6
Receivables and other assets	576,135.1	532,275.4
Cash and cash equivalents	7,700.6	37,411.0
	616,824.9	**598,097.0**
Prepaid Expenses and deferred charges	**338.0**	**2,473.8**
	1,264,269.4	**1,246,365.0**
EQUITY AND LIABILITIES		
Equity		
Common stock	272,349.0	212,074.1
Additional paid-in capital	39,129.3	39,084.1
Accumulated profit	222,486.5	159,751.6
	533,964.8	**410,909.8**
Subordinated mezzanine capital		
Subordinated convertible bonds	17,040.0	77,360.0
Effective equity capital	**551,004.8**	**488,269.8**
Provisions		
Provisions for termination benefits and pensions	47,568.4	46,125.9
Other provisions	83,674.5	76,384.7
	131,242.9	**122,510.6**
Liabilities		
Financial liabilities	409,374.0	458,924.0
Trade payables	15,313.8	10,359.7
Other liabilities	157,333.9	166,300.9
	582,021.7	**635,584.6**
	1,264,269.4	**1,246,365.0**
Contingent liabilities	38,524.0	27,082.9

[1] The 2007 financial statements of RHI AG were compiled in accordance with the Austrian Commercial Code (UGB) as amended. The financial statements shown here are a summarised presentation of the audited balance sheet and income statement.

Income Statement of RHI AG 2007[1]

in € 1.000	2007	2006
Revenues	976,147.7	808,904.9
Changes in inventories and services not yet invoiced	-384.1	1,908.2
Other own work capitalised	0.0	7.7
Other operating income	38,700.8	38,659.0
Cost of material and other production services	-671,308.9	-573,177.4
Personnel expenses	-66,955.1	-73,495.9
Depreciation and amortisation	-9,728.7	-6,609.9
Other operating expenses	-204,028.1	-179,727.9
Operating result	**62,443.6**	**16,468.7**
Income from investments	10,889.8	25,934.3
Income from other non-current securities	416.2	317.6
Other interest and similar income	20,207.0	19,101.3
Expenses from financial assets	-507.3	-15,624.9
Interest and similar expenses	-28,681.6	-16,646.8
Financial result	**2,324.1**	**13,081.5**
Result from ordinary activities	**64,767.7**	**29,550.2**
Extraordinary expenses	0.0	-437.6
Income taxes	-2,032.8	-589.4
Profit for the year	**62,734.9**	**28,523.2**
Profit carried forward	159,751.6	131,228.4
Accumulated profit	**222,486.5**	**159,751.6**

Imprint

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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. These 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.

RHI Group
Key data

in € million	2007	2006	2005	2004	2003	2002	in € million
Revenues	**1.485,8**	**1.335,8**	**1.199,4**	**1.119,8**	**1.232,6**	**1.358,0**	**Revenues**
Steel	891,8	815,8	735,8	1.102,6	1.033,6	1.068,1	Refractories
Industrial	536,6	463,2	408,9				
Raw Materials/Production	977,1	884,7	792,0				
					166,9	168,8	Insulating
Consolidation	-919,7	-827,9	-737,3	17,2	32,1	121,1	Consolidation, other
EBITDA	**215.6**	**179.5**	**156.4**	**166.7**	**174.7**	**188.8**	**EBITDA**
EBIT	**164,3**	**133,8**	**115,5**	**125,5**	**122,0**	**117,6**	**EBIT**
Steel	82,7	68,3	59,7	123,2	115,9	98,9	Refractories
Industrial	66,7	58,3	49,1				
Raw Materials/Production	14,9	7,2	6,7				
					7,1	4,2	Insulating
				2,3	-1,0	14,5	Overhead, other
Profit continuing operations	**111,0**	**97,1**	**82,8**	**92,6**			**Profit continuing operations**
Profit discontinued operations		**60,8**	**14,5**	**7,1**			**Profit discontinued operations**
Profit for the year	**111,0**	**157,9**	**97,3**	**99,7**	**77,5**	**49,6**	**Profit for the year**
Profit attributable to equity holders of RHI AG	**109,4**	**155,0**	**95,6**	**95,0**	**72,9**	**46,9**	**Profit attributable to equity holders of RHI AG**
Cash flow from operating activities	**154,8**	**50,9**	**108,3**	**93,5**	**100,2**	**108,4**	**Cash flow from operating activities**
Cash flow from investing activities	**-103,7**	**177,9**	**-60,3**	**-56,5**	**-26,6**	**-36,1**	**Cash flow from investing activities**
Cash flow from financing activities	**-82,1**	**-205,0**	**-47,7**	**-43,1**	**-86,6**	**-99,5**	**Cash flow from financing activities**
Non-current assets	**597,4**	**545,5**	**553,5**	**652,4**	**613,5**	**626,7**	**Non-current assets**
Financial liabilities net [1]	**398,7**	**419,7**	**636,4**	**659,6**	**665,5**	**725,1**	**Financial liabilities net** [1]
Employees (average)	**7.305**	**6.526**	**6.367**	**6.094**	**7.836**	**8.478**	**Employees (average)**
Equity ratio (in %) [2]	**7,7**	**-5,4**	**-14,2**	**-24,8**	**-36,1**	**-37,6**	**Equity ratio (in %)** [2]
Return on capital employed (in %) [3]	**24,0**	**21,2**	**19,7**	**20,3**	**18,9**	**16,2**	**Return on capital employed (in %)** [3]
Return on average fixed assets [4]	**36,8**	**31,6**	**28,6**	**27,8**	**25,0**	**21,9**	**Return on average fixed assets** [4]
Basic earnings per share (in €) [5]	**3,06**	**5,81**	**4,07**	**4,63**	**3,65**	**2,35**	**Basic earnings per share (in €)** [5]
Diluted earnings per share (in €) [6]	**2,77**	**4,01**	**2,55**	**2,58**	**2,04**	**1,36**	**Diluted earnings per share (in €)** [6]
Continuing operations							**Continuing operations**
Basic earnings per share (in €) [5]	3,06	3,53	3,46				Basic earnings per share (in €) [5]
Diluted earnings per share (in €) [6]	2,77	2,48	2,19				Diluted earnings per share (in €) [6]
Dividend per share (in €)	**0,00**	**0,00**	**0,00**	**0,00**	**0,00**	**0,00**	**Dividend per share (in €)**

1 Financial liabilities net = financial liabilities – cash and cash equivalents

2 Equity ratio = equity according to balance sheet / balance sheet total

3 Return on capital employed = EBIT / average (property, plant and equipment + goodwill + other intangible assets + net current assets)

4 Return on average fixed assets = EBIT / average (property, plant and equipment + goodwill + other intangible assets)

5 Basic earnings per share = profit attributable to equity holders of RHI AG / number of shares (weighted average)

6 Diluted earnings per share = profit attributable to equity holders of RHI AG + interest expense of convertible bond – current taxes / number of shares (weighted average) + potential shares from convertible bond