# RHI
# ANNUAL FINANCIAL REPORT 2008

SUCCESS HAS MANY NAMES

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 for the continuing operations

## Earnings indicators

| in € million | 2008 | 2007 | Change |
|---|---|---|---|
| Revenues | 1,596.7 | 1,467.6 | 8.8% |
| EBITDA | 216.1 | 217.0 | -0.4% |
| EBITDA margin | 148.4 | 165.8 | -10.5% |
| EBIT | 13.5% | 14.8% | -8.5% |
| EBIT margin | 9.3% | 11.3% | -17.7% |
| Profit before income taxes | 113.4 | 128.2 | -11.5% |
| Profit for the year | 101.8 | 113.1 | -10.0% |
| Cash flow from operating activities | 123.5 | 155.1 | -20.4% |
| Capital expenditure | -76.7 | -78.7 | 2.5% |
| | | | |
| Employees at year-end | 7,766 | 7,272 | 6.8% |

## Balance sheet indicators

| in € million | 2008 | 2007 | Change |
|---|---|---|---|
| Balance sheet total | 1,323.3 | 1,240.3 | 6.7% |
| Equity | 181.8 | 95.6 | 90.2% |
| Net debt | 375.0 | 398.7 | -5.9% |
| Gearing | 206.3% | 417.2% | -50.6% |

## Stock exchance indicators

| in € | 2008 | 2007 | Change |
|---|---|---|---|
| Basic earnings per share | 2.64 | 3.12 | -15.4% |
| Diluted earnings per share | 2.51 | 2.83 | -11.3% |
| Share price: high | 33.95 | 42.73 | -20.5% |
| Share price: low | 10.60 | 25.69 | -58.7% |
| Share price: average | 24.71 | 36.16 | -31.7% |
| Share price at year-end | 11.25 | 28.00 | -59.8% |
| Market capitalisation at year-end (in € million) | 427 | 1,049 | -59.3% |
| Number of shares (million units) | 37.93 | 37.48 | 1.2% |
| Dividend per share | 0.00 | 0.00 | |

# Success has many names

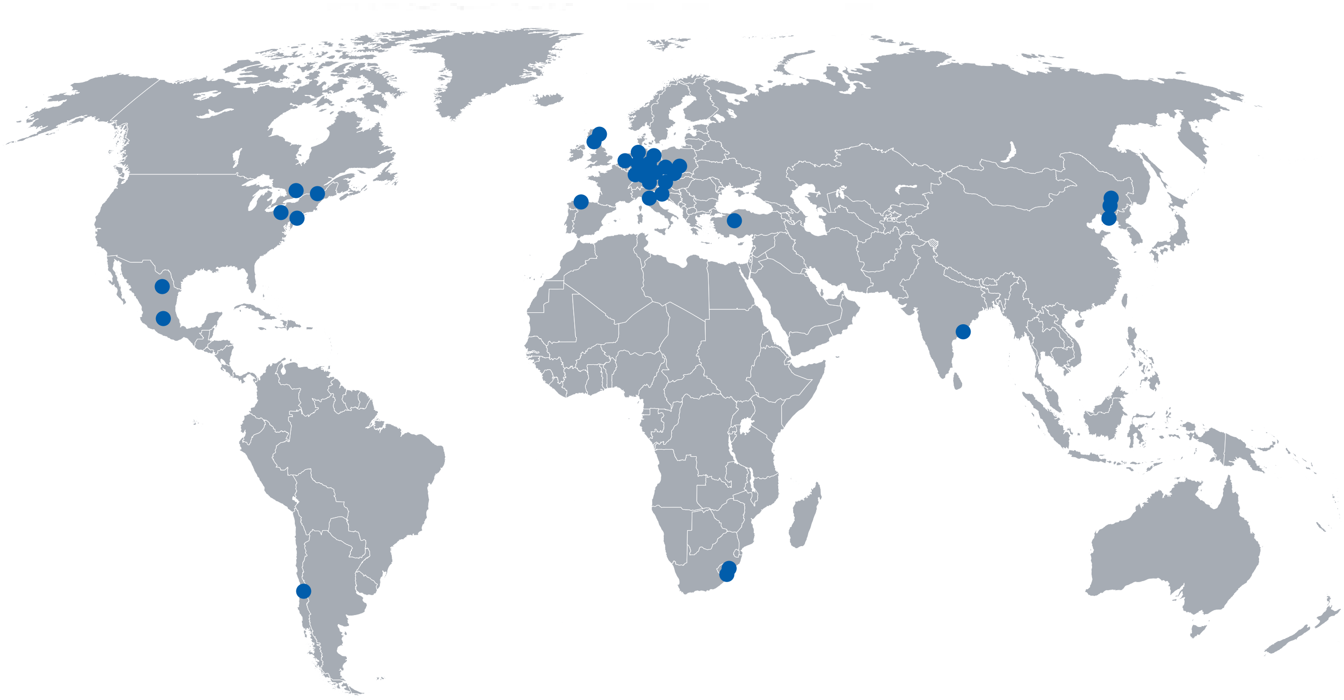
Under the global umbrella brand RHI, our group of companies stands for an outstanding quality philosophy, which has made us the global technology leader in sophisticated refractory system solutions.

Superior technology, high-quality products, perfect engineering, outstanding technical service and a convincing price-performance ratio: these are the qualities to which we owe our success. Success that is not just called RHI, but bears the names of all our colleagues who have made an essential contribution to the RHI success story through their expertise, their experience and their commitment.

Success has many names: names of people who achieve great things every single day in order to make our products and services better, more efficient, more cost-effective and more innovate. For this reason, we would like to give RHI's employees the place they deserve in this annual report.

We have chosen six colleagues from different business segments and fields of activities at RHI and would like to present them on behalf of all our employees in this annual report as they bear the names of our company success. People as individual as every single one of our global staff network, who briefly tell us their story, showing in a very personal way how they successfully deal with their tasks every day.

This goes to show that our success does not just have one name, but thousands.



**RHI mining, raw material and production sites**

**HQ Vienna/AT**
**TC Leoben/AT**

| | | | | |
|---|---|---|---|---|
| Breitenau/AT | Aken/DE | Bonnybridge/GB | Isithebe/ZA | Bayuquan/CN |
| Hochfilzen/AT | Duisburg/DE | Clydebank/GB | Tugela/ZA | Dalian/CN |
| Radenthein/AT | Mainzlar/DE | Evergem/BE | Bécancour/CA | Dashiqiao/CN |
| Trieben/AT | Marktredwitz/DE | Soufflenheim/FR | Burlington/CA | Venkatapuram/IN |
| Veitsch/AT | Niederdollendorf/DE | Lugones/ES | Falconer/US | |
| | Urmitz/DE | Marone/IT | Saybrook/US | |
| | | San Vito/IT | Ramos Arizpe/MX | |
| | | Eskisehir/TR | Tlalnepantla/MX | |
| | | | Santiago/CL | |

**Name**

Kurt Wandaller

**Job**

Head of the Business Unit Glass, Wiesbaden

**Comes from**

Eisentratten, Austria

**Has**

two continents on his key ring

**Is**

holder of two passports

**Can**

not part with his vintage calculator

**Personal short story**

Following his graduation from the Vienna University of Economics and Business Administration (majored in Marketing/Foreign Trade), Kurt Wandaller gained his first job experience in the transport and logistics industry before joining Radex Austria in Radenthein as a marketing assistant in 1989.
In the course of his subsequent career, Kurt Wandaller assumed a series of management positions, including commercial manager, sales manager and managing director at subsidiaries of RHI AG in Italy. Since 2007, Kurt Wandaller has been the Head of the Business Unit Glass. In this function he is responsible for global sales as well as for plants in Germany, Italy and the USA.


**1** Bag **2** International magazines (The Economist, l'espresso, Time) **3** Keys for 2 continents **4** Headphones **5** Reading glasses **6** Translator **7** Notebook **8** Fountain pen **9** First-aid kit **10** Adapter plug **11** Calculator from 1978 **12** 3 mobile phones (Germany, Italy, USA) **13** Note pad **14** Current business papers **15** Book: "The Audacity of Hope: Thoughts on Reclaiming the American Dream" by Barack Obama

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# Management Board RHI AG

(from left to right)

**Rudolf Payer**
Member of the Board;
responsible for
Accounting, Taxes and IT

**Thomas Fahnemann**
(since 1 January 2009)
Chairman of the Board
and CEO

**Giorgio Cappelli**
Member of the Board;
COO Steel Division

**Stefano Colombo**
(until 28 May 2009)
Deputy Chairman
and CFO

**Manfred Hödl**
Member of the Board;
COO Industrial Division

Andreas Meier also
served on the
RHI Management Board
until 31 December 2008.

# Foreword by the CEO

Dear Shareholders,

The expansion of the financial crisis into the real economy had a decisive influence on RHI's business development in 2008. While the first three quarters were characterised by growing demand and price increases, the steel industry suffered a slump in the fourth quarter, with immediate effects on RHI. This significant downturn was followed with some delay by the cement and glass industries in the first quarter of 2009.

In general, industry cycles, sometimes with heavy fluctuations, are not unusual in our industry. It was, however, not foreseeable that the entire world economy would be hit by the crisis so rapidly and to such a depth. Therefore it is all the more important to act quickly and with determination.

We immediately took measures to counteract these developments at the beginning of the year. Capacity was adjusted to the falling demand, inventories and current assets were reduced. At the same time, sales efforts were stepped up with great success in markets which have so far not been hit as hard by the crisis, for instance Central and South America.

In addition to these immediate measures, a cost-cutting programme has been developed in cooperation with staff representatives. Our target is to improve costs by roughly € 80 million, half of which is to be realised in the financial year 2009. Starting in the second quarter of 2009, this programme will be implemented at the operating level.

Independent of the current economic situation, we also made some fundamental decisions for comprehensive structural changes in the RHI Group in early 2009. In the future, the Steel, Industrial and Raw Materials Divisions will be operated as profit and service centres close to the market, enabling us to respond to customer requirements more rapidly and flexibly and to achieve enhanced transparency for optimal group management. In addition, this new organisational structure takes better account of our long-term strategic growth targets, facilitates entrepreneurial actions on the part of our employees at the operating level and creates new, clear responsibilities up to the management board level.

Our strategic objective is to continue to expand our world market leadership in the refractories industry. Although the coming months, possibly even years, will be characterised by the current economic climate, the outlook for our products is fully intact in the long term. Steel consumption will continue to increase, above all in the emerging markets due to population growth, growing prosperity and necessary investments in industry and infrastructure. For the same reasons we consider the growth perspectives for our Industrial Division, which has a strong position in the cement, glass and metal industries as well as the growing environment, energy and chemicals sector, positive in the long term. In the coming months we will therefore establish an organisational structure that will enable us to profit from any upward trend optimally immediately.

RHI is still faced with a highly fragmented market for refractory products. Especially in times when no market growth is possible, we consider it the task of the world market leader to shape the structure of the supply side.

Due to the successes of past years, RHI's economic position is stronger than ever. This strength gives us scope for action. We will aggressively use opportunities that keep arising for strong companies in a difficult market environment – be it in order to round off our product range, improve our raw material base further, expand our global presence and, above all, to strengthen our market position in the emerging markets in the long term.

Since my appointment to CEO at the beginning of the year, I have come to know RHI as a company with top-qualified and motivated employees with outstanding technological expertise. All of those are requirements to enable us to emerge stronger from the currently difficult global economic situation. At this point, I extend my thanks to all employees for their outstanding commitment in the past financial year 2008. I would also like to thank our customers and shareholders who have put their trust in us.

Thomas Fahnemann

# Strategy and Business Model

RHI will report in accordance with the new organisation structure starting in the second half of 2009. In this new structure the production sites and the research and development activities will be allocated to the divisions, thus bringing them closer to the customers and their needs. The profit centre organisation creates a structural basis to ensure that the long-term strategic growth targets are met:

**Technology leadership**

As the technology leader, RHI enables steel manufacturers worldwide to concentrate on their core competences. Tailored to the different regional requirements of customers, the Steel Division provides individually customised solutions and high-quality complete packages consisting of refractories, machinery and services to the flow control segment providing slide gates and systems as well as isostatic products and the related systems. A clear leading edge in refractories technology, coupled with reliability and the reputation of a full-range supplier, also forms the basis of the Industrial Division's success. Service, process technology and engineering expertise for customised refractories concepts guarantee added value for the production of cement, lime and nonferrous metals. A broad, high-quality product range of fused cast and ceramic products, combined with global market presence and a network with plant manufacturers and customers characterise the outstanding position of the glass segment. A high degree of innovation, product and service quality as well as engineering in projects are the prerequisites for success in the environment, energy, chemicals sector.

**Backward integration**

The RHI Group attaches top priority to strengthening self-supply with magnesia raw materials. This includes process-oriented production and the sustainable development of the process technology of raw material production processes, the development of new raw materials, the economical utilisation of the Group's own deposits and the search for new raw material sources.

**Global presence**

The strategy to act as a global full-range supplier with excellent service and intensified self-supply with magnesia raw materials will secure and further strengthen RHI's market position in the coming years. This also requires an increased sales presence in those regions that will experience above-average growth in the future.

The corporate strategy is currently being developed in detail within the framework of the "RHI Success Initiatives 2009".

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MATTER OF
PREPARATION.
YOU JUST
HAVE TO
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**Name**

Helmut Harrer

**Job**

Overman

**Comes from**

Breitenau/Hochlantsch, Austria

**Has**

an eye on his colleagues' safety at all times

**Is**

an expert, also privately:
as a virtuoso on the French horn

**Can**

make a competent assessment whether
a stone should be left unturned

**Personal short story**

Shortly after his initial apprenticeship as an industrial fitter, Helmut Harrer began training as a mining technician. At the mining and metallurgy school in Leoben, Austria, he graduated as master tradesman in the basic materials industry. He also completed additional training in "special open cast mining including blasting" and a diploma in mineral raw materials industry as part of underground mining training – and passed all of them with distinction. Following the successful completion of a squad leader course, Helmut Harrer worked as a plant inspector at RHI starting in the year 2000. After training as a superintendent of the mine rescue service in 2006, he has been working as an overman for RHI since 2009.

**1** Horn **2** Miner's cap **3** Notes **4** Bag **5** Car keys **6** Measuring tape **7** Family photo **8** Folder of charts **9** Ear plugs **10** Water bottle **11** Helmet **12** CD – South American music **13** Laser measuring device **14** Radio **15** Note book

# RHI Share

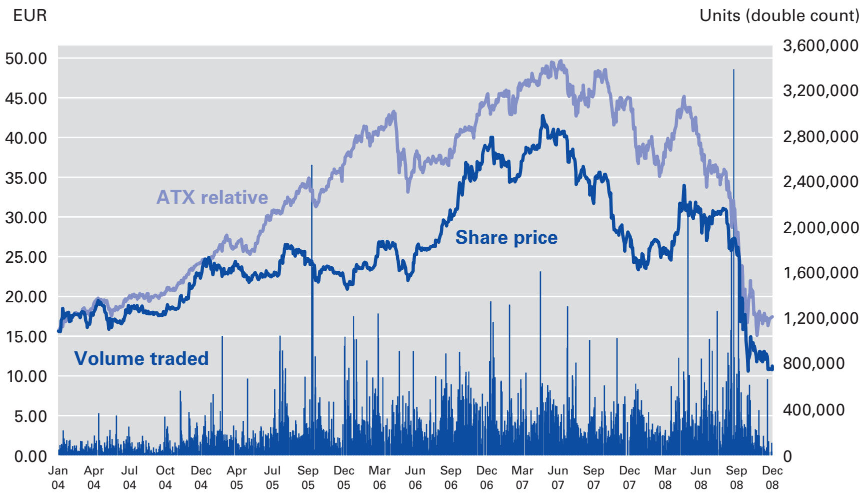
**Turbulent year 2008**

The Vienna Stock Exchange was unable to detach itself from the turbulences hitting the international markets in 2008. The lead index ATX suffered a sharp drop, in particular in the second half of the year, and closed at 1,750.83 points on 30 December 2008, down 61% on the end of 2007. Apart from the volume traded per month, market capitalisation also fell dramatically.

The RHI share started the year 2008 at a price of € 27.45, peaking at € 33.95 in May after a weak first quarter. The bankruptcy of Lehman Brothers in September caused stock markets to crash worldwide; by November, the RHI share fell approx. 66%, hit an annual low of € 10.60 and recovered slightly to € 11.25 by the end of the year.

In the year 2008, 37.9 million RHI shares were traded. Although this was more than in the previous year, turnover dropped approx. 27% due to the low share price and amounted to € 2,120 million. In the lead index ATX, RHI was weighted at 1.66% at year-end 2008, and in the ATX Prime at 1.32%.

**Performance of the RHI share**




**ISIN**

| | |
|---|---|
| RHI Share: | AT0000676903 |
| RHI new shares from conversion 2009: | AT0000A0BNR5 |
| 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 2009 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

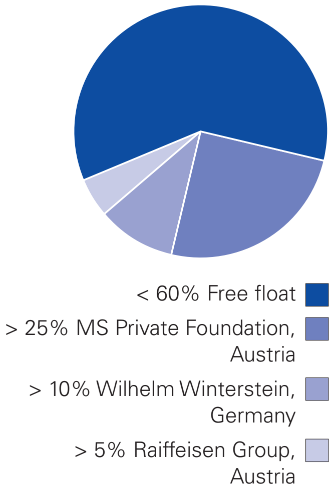
At the extraordinary General Meeting on 15 February 2002, RHI AG's Management Board gained approval for capital increases as part of the capital restructuring programme to secure its capital structure long-term, enabling it to issue two subordinated convertible bonds of tranche A and B.

In April 2002, the Management Board of RHI AG 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 2009 a total of 3,274 of the 3,618 convertible bonds had been converted into 18,007,000 new RHI shares. The number of shares thus amounts to 37.927.039 at 1 April 2009. 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 financial year in which they are issued.




## RHI shareholder structure

The MS Private Foundation (MSPF) has been holding 25% of the outstanding RHI shares since 20 April 2007. In addition, MSPF holds RHI convertible bonds of tranche A and can own up to 29.22% of the RHI shares if it fully exercises the conversion rights for all convertible bonds.

Apart from MSPS, Mr. Wilhelm Winterstein, Germany, reported more than 10% and the Raiffeisen Group; Austria, more than 5% of the RHI voting rights in accordance with the Austrian 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 2008 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 2008, 850 employees participated in this programme.

## Profit appropriation

At the Annual General meeting on 28 May 2009, the RHI Management Board will propose to carry forward the accumulated profit 2008 of RHI AG in its entirety with a view to the difficult economic climate and to strengthen equity.

**Stock exchange indicators of the RHI share**

| in € | 2008 | 2007 | Change |
|---|---|---|---|
| Share price at year-end[1] | 11.25 | 28.00 | -59.8% |
| High[1] | 33.95 | 42.73 | -20.5% |
| Low[1] | 10.60 | 25.69 | -58.7% |
| Average[1] | 24.71 | 36.16 | -31.7% |
| Earnings per share (diluted) | 2.51 | 2.82 | -11.0% |
| Number of shares (in million units) | 37.93 | 37.48 | 1.2% |
| Stock exchange turnover (in million units) | 81.43 | 79.61 | 2.3% |
| Stock exchange turnover (in € million) | 2,120 | 2,906 | -27.0% |
| Market capitalisation (in € million)[2] | 427 | 1,049 | -59.3% |

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

## Investor Relations

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, one-on-ones and telephone conferences.

**Extended Coverage**

In the year 2008 the following banks and investment companies covered RHI AG in analyses (in alphabetical order): Berenberg Bank, CA Cheuvreux, Capital Bank, Cazenove, Deutsche Bank, Equita, Erste Bank, Raiffeisen Centrobank, Sal. Oppenheim, UniCredit.

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

| | |
|---|---|
| Investor Relations Officer: | Barbara Potisk-Eibensteiner |
| 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 2009**

| | |
|---|---|
| 5 May 2009 | Result Q1/2009 |
| 28 May 2009 | RHI Annual General Meeting |
| 4 August 2009 | Half-year result 2009 |
| 3 November 2009 | Result Q3/2009 |

# 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 on the Corporate Governance Code for the financial year 2008

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, profit for the year and free cash flow.
>> **Relationship of fixed to performance-linked components of total compensation:**
Up to approx. 50% of total compensation is variable.
>> **Principles of the company retirement plan:**
Principle of deferred compensation, no defined benefit plan.
>> **Principles of eligibility and claims in the event of termination of the function:**
No claims beyond the Management Board contract, with the one-off exception of the termination of a function.

**Figure 39**
**Corporate Governance Code (Comply or Explain):**

The committees established at RHI AG exercise the activities stipulated by the Austrian Corporate Governance Code and the relevant legal requirements.

Appointment to committees, number of meetings in the financial year 2008.

**Audit committee (4 meetings):**
G. Peskes (finance expert)
M. Gröller
S. Prinz zu Sayn Wittgenstein-Berleburg
L. Miedl

**Nomination committee (2 meetings):**
M. Gröller
H. Cordt
H. Draxler
G. Peskes

**Compensation committee (2 meetings):**
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):**

Supervisory Board members, period in 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:

| | Year of birth | First appointment | End of period in office |
|---|---|---|---|
| M. Gröller, Chairman | 1941 | 15 February 2002 | AGM 2010 |
| H. Cordt, Deputy Chairman | 1947 | 1 June 2007 | AGM 2010 |
| H. Draxler*), Deputy Chairman | 1950 | 1 June 2007 | AGM 2010 |
| U. Glaunach | 1956 | 29 May 2008 | AGM 2011 |
| H. Gorbach | 1956 | 1 June 2007 | AGM 2010 |
| G. Peskes | 1944 | 1 July 1999 | AGM 2009 |
| S. Prinz zu Sayn-Wittgenstein-Berleburg | 1965 | 17 May 2001 | AGM 2009 |
| Resigned from office prematurely on 29 May 2008 | | | |
| M.J. Eckhout | 1959 | 1 June 2007 | AGM 2010 |

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.

**Figure 58 Corporate Governance Code (Comply or Explain):**

Disclosure of other supervisory board mandates for other listed companies

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

In the following item RHI deviates from the recommendation so the Corporate Governance Code:

**Figure 31 Corporate Governance Code (Recommendation):**

Compensation of the Management Board

Remuneration is not published in the annual report as the decision to publish individual remuneration lies with each individual member of the Management Board.

RHI AG
Management Board

*) Note to figures 53, 54, 58: Mr. Draxler is NOT an independent member of the Supervisory Board pursuant to the criteria for independent Supervisory Board members as published on the company's website, because he was Chairman of the Management Board from 2002 to 2007.

**Name**

Xiaowei Ren

**Job**

Controlling, RHI AG Vienna

**Comes from**

Wenzhou, Zhejiang Province, China

**Has**

always clear vision – with or without glasses

**Is**

an economic expert for the growth market China

**Can**

telephone on the left in German
and on the in right Chinese

**Personal short story**

Born in Wenzhou, China, in 1977, Xiaowei Ren moved to Austria as a teenager and majored in international business studies at the Vienna University of Economics and Business Administration in 1998. She focused on business management, controlling & management consultancy as well as corporate finance. Since joining RHI in 2003 and in her current position as a Group Controller, Xiaowei Ren has benefited not only from her solid business and economic knowledge, but especially from knowing the market of her native China, one of the most important markets of the RHI Group.

**1** Laptop **2** Papers with pen and reading glasses **3** 2 Mobile telephones (Austria, China) **4** Tissues **5** Wet wipes **6** Inflatable headrest (for long-haul flights) **7** Wooden comb **8** Glasses & sunglasses **9** "Hetao Rou" – caramellised nuts **10** Book "Austria and China in Anecdotes" **11** Water bottle **12** Magazines (Caijing Finance, Format, Caifu Shenghuo, Fortune Life) **13** Trolley

**“SUCCESS**
**IS TO SPREAD**
**OUT YOUR**
**ENTIRE**
**LUGGAGE**
**IN FRONT**
**OF YOU BEFORE**
**EACH TRIP –**
**AND TO ALWAYS**
**JUST TAKE THE**
**CORRECT HALF**
**WITH YOU.”**

# Sustainability

As an industrial group with local roots and a tradition going back more than a century, RHI is aware of the special challenge of taking into account economic, ecological and social aspects in daily activities and of creating a balance between the requirements of different interest groups. Therefore, sustainable action vis-à-vis all stakeholders is a central element of RHI's corporate orientation, with the most important objective being a sustainable increase in company value.

Assuming responsibility in everyday activities is another central element of RHI's mission statement, which is based on power of innovation, openness and reliability. Topics, processes and activities that fall under the concept Corporate Social Responsibility have for many years been lived actively at all levels at RHI.

**IMS and quality management**

All programmes for quality management, safety at work, environmental protection and industrial health have been merged and are controlled within the Integrated Management Systems (IMS) established in the entire Group. The objectives are to simplify all processes, improve legal security and minimise potential risks for employees and the environment.

In the financial year 2008, a project which upgrades the existing legal compliance management system with state-of-the-art software in order to ensure further enhancement of legal compliance (location-specific legal register, legislation update service as well as decision and task management) was launched within IMS, in a first stage at 12 locations in Austria and Germany.

In 2008, qualified internal IMS auditors audited every location and determined the efficiency of the IMS management systems. In addition, 16 of the 32 production sites were subject to external audits by Lloyd's, which were completed positively.

The global certification of all RHI sites in accordance with ISO 9001:2000 guarantees standardised quality management throughout the Group. In 2008, RHI's production site in Venkatapuram, India, was certified in accordance with ISO 9001:2008 for the first time.

Within the framework of quality management a series of measures were launched and implemented at the plants in the past financial year, amongst them the optimisation of procedure instructions in production, a further development of alternative material inspection methods, the introduction of a new warranty process as well as optimised quality standards in operations, a system to support the analysis of process parameters or Lean Sigma Projects.

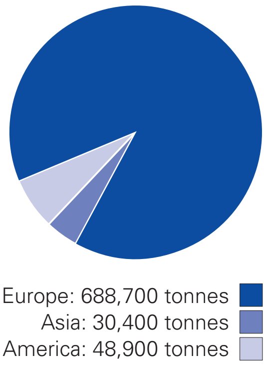
The average complaint rate in 2008 was retained at a low level similar to the previous year. Since 2005, it declined from 1.12% to 0.82% of customer orders, while the average processing time was reduced to 31 days.

Within the framework of customer satisfaction studies, a survey of steel customers was conducted throughout Europe, which produced excellent results for RHI: RHI is still the undisputed and preferred supplier of refractory materials for steel manufacturers in Europe.

**Environment**

RHI undertakes great efforts to make the production process highly energy-efficient while at the same time saving resources. All production processes are keyed to minimising direct and indirect impact on the environment, to which continuous innovations and increases in efficiency make an essential contribution. RHI is striving for a standardised environmental management system at all locations. In 2008, the plant in Dalian, China, was also certified in accordance with the international environmental management standard ISO 14001. More than 70% of RHI's locations now have a corresponding certification.

**$CO_2$ Balance 2008**




70% of the emissions are process-related and generated directly when raw materials are processed. These emissions cannot be avoided using any known technology. As the technology leader, RHI's production is based on the best available technology. Therefore, non-process-related $CO_2$ emissions at RHI are up to 33% lower in comparison with other producers, for instance in Asia. In the past 15 years, RHI has invested more than € 45 million in measures reducing the impact on the environment and achieved a $CO_2$ reduction by roughly 20-25% p.a. (Kyoto target: -13%). In 2008, investments in measures to improve the environment totalled € 13.4 million in the Group, which corresponds to 18% of the total investment budget.

Moreover, RHI is working intensively on a further, technically feasible reduction of emissions; Specialists from R&D, technology and production are developing possible implementations in order to minimise emissions and to accomplish values far below the legally required level. Impact on the environment is periodically checked and evaluated in all organisational units, and further targets for improvement are derived from the results.

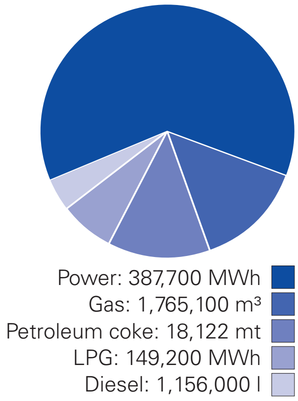
**Waste and water consumption**

In the area of waste and water consumption, RHI is also working on optimising the resources used. The Group's total waste ratio amounts to 1.8% of a total of 1.619 million tonnes of finished products.

| | Waste [kg p.a.] | Water [m³ p.a.] |
|---|---|---|
| Europe | 24,920,625 | 5,007,760 |
| Asia | 1,594,496 | 128,635 |
| Africa | No data | 69,864 |
| America | 2,205,096 | 426,695 |
| | **28,720,217** | **5,632,954** |

RHI is "best in class" regarding energy management. Continuous process optimisation leads to a substantial increase in energy efficiency; overall, energy consumption was reduced by 6% p.a. on average. This means that heat consumption dropped 5% and power consumption 11% in comparison with 2007. The measures taken focused on recuperating the waste heat of exhaust gas from kilns and frequency-controlled electrical motors for large ventilators.

**Energy consumption**




At the Radenthein plant in Austria, for instance, a filter system with integrated heat recovery for power generation was installed. This way, approx. 1 megawatt of power can be generated from the waste heat of the tunnel kiln, covering a large part of the power consumption of the brick factory. Moreover, the entire workshop area was equipped with noise barriers, thus significantly reducing the noise level and dust formation.

Another example of increased efficiency is the extension of the thermal afterburning system at the Marone plant in Italy. This is an important contribution to emission reduction and forms the basis for heat recovery with a potential decrease in gas consumption of approx. 1 million m³ p.a.

**Recycling and raw materials**

Recycling is increasingly gaining significance amongst RHI's customer industries, not least due to ecological aspects. RHI has dealt intensively with this topic for several years. Scrap material from different industrial kilns is to be recycled to a higher extent in order to achieve improved ecological product effectiveness throughout the entire life cycle. The R&D department constantly develops appropriate recycling concepts. RHI is currently the refractories producer with the highest use of recycled materials worldwide; more than 50,000 tonnes per year are recycled, which means 50,000 tonnes less waste disposed and a reduction of emissions by 75,000 tonnes $CO_2$ p.a.

When new products are developed, all raw materials, bonds and additives are tested extensively for their ecological effect before a new material is used. Hazardous substance assessments are conducted regularly for existing products to prevent the use of raw materials that are detrimental to the environment. In 2008, material consumption amounted to 32.9% of revenues, 90% was accounted for by raw materials.

**Transport and logistics**

RHI has 32 production sites worldwide and more than 10,000 customers in 180 countries. In addition to that, some 800 raw material suppliers, 2,000 different raw materials and roughly 120,000 different articles form part of the supply chain. In procurement, internal and sales logistics, products are transported by ship, rail and road (truck). Special attention is attached to the transport by rail, as this is an environmentally friendly transport system.

Further projects to increase the use of transport by rail were implemented in 2008: 30,000 tonnes p.a. were shifted to rail to supply the plant in Mainzlar, Germany, with raw materials. The Trans-Siberian Railway has predominantly been used for raw material transports from China to Europe and vice versa, as well as transports to the CIS states, since 2008. 1,000 containers, which corresponds to 1,250 truckloads, where thus shifted to the rail in the past year.

**Renaturation**

Sustainable cultivation of former mines for renaturation and landslide protection has been part of RHI's environmental activities for several years. In 2008, for instance, more than 300 young trees and bushes were planted in Veitsch, Austria, together with the forestry school Pichl. These plants are to fulfil local recreation and protective functions. This initiative supports the natural establishment of a sustainable, self-regulating eco-system.

Another impressive reforestation programme was launched around the raw material and production site Tutluca in Turkey in 2008: by 2009, a total of 30,000 trees will be planted on an area of roughly 100 hectares.

**Social responsibility**

As a company that has a history of more than 100 years in some locations, RHI is an important part of society and committed to good corporate citizenship. RHI takes the initiative to improve the quality of life of the people in its environment. Especially in structurally weak regions, RHI is an important employer that initiates comprehensive activities in the direct local environment for welfare and the interests of the population.

In the area of social responsibility RHI concentrates on projects in the interests of children and young people. Central importance is attached to socially disadvantaged children and to promoting young people in education and sports. Such projects include:

**Projects in Austria**

For many years, RHI has supported several SOS children's villages in different provinces of Austria. These partnerships were continued or newly established in 2008: on the occasion of the 100-year anniversary of the Radenthein plant in Carinthia, RHI made a substantial contribution to building a new house at the SOS children's village in Moosburg.

Within the framework of local activities, RHI supported municipalities for the equipment of communal institution as well as (youth) sports clubs, schools, non-profit organisations such as the Red Cross, fire brigades and alpine outposts and rescue services, as well as the University of Leoben.

**International projects**

2008 supported RHI the reconstruction of a Bosnian middle school in Sarajevo, initiated by the Civil Military Cooperation of the Austrian National Defence Academy. RHI has been closely linked with this region for many years due to intensive customer relationships.

On the occasion of the opening of a new RHI plant in South Africa, RHI made a significant financial contribution to a support programme for an AIDS project of the Knights Hospitaller the beginning of the year 2008. It will be used to finance AIDS education programmes, a hospice and a children's home for AIDS orphans.

**Health and safety at work**

Only a sustainable industrial health and safety policy protects the health of all employees and ensures enhanced performance and willingness to perform. Investments in sustainability therefore pay off for all those involved – equally for RHI and its employees.

RHI has set up a comprehensive workplace health management system, which has received numerous awards, as a sustainable part of its corporate culture for many years. It focuses on health-promotion measures that go beyond classical prevention to systematically build up resources with a special focus on young employees and apprentices.

RHI has set up health forums where employees define, with a moderator, measures to promote health, workplace requirements and their entire workplace environment, thus actively contributing to the planning and implementation of workplace health promotion measures. Examples include health days, where screenings or seminars on preventing burnout are conducted. These are offered throughout the Group as best practice models. Sports activities are an integral part of these health forums (apprentice sports days, running competitions, fitness and endurance training etc.).

RHI gives is employees the opportunity to participate in the so-called PROFIT week free-of-charge. The PROFIT health week comprises the topics health, diet, work-life balance, group dynamics and self-responsibility and is also a fixed part of apprentice training at RHI.

**Industrial safety**

As an industry group, RHI is confronted with numerous national legal requirements at the different production sites. As a responsible company, RHI provides for comprehensive protection of the safety of its employees based on uniform measures throughout the Group that go far beyond legal requirements. Periodic training courses in accordance with group standards aim at raising safety awareness, setting prophylactic measures and thus ensuring a further improvement in safety at work.

In the year 2008, occupational accident statistics were standardised for the first time throughout the Group to enable better comparison between locations, and above all to derive further possible improvements in work safety. Best practice models are taken over and applied throughout the Group.

The project "I AM" (Information as Motivation) was launched successfully in 2008. It deals with the evaluation of workplaces. Apprentices inform employees on their view of dangers at the individual workplaces and this way provide a motivation for more safety at the workplace. These workplaces are than marked with an evaluation barometer as a visible sign.

**Sustainability awards 2008**

In 2008, RHI received awards and acknowledgements for its activities in workplace health promotion including the "Quality seal 2 for workplace health promotion" by the Fund for a Healthy Austria for three locations, and a nomination for the "Health care award 2008".

For its special apprentice training RHI received the "TRIGOS 2008", an award for companies with responsibility, which was initiated by the die Ministry of Social Affairs, the Ministry of Economy, special interest groups of business and NGOs. The award was granted for the project "for future profit-able". Starting in their first year of training, apprentices at RHI enjoy special measures for further education, which go beyond technical and methodical knowledge. Only in combination with the necessary self-competence can the knowledge conveyed during training be applied successfully in professional practice.

Therefore, the personal development of apprentices plays an especially important role and is supported by the corresponding measures (languages, communication, rhetoric, etc.).

"Apprentice trainer of the year" award: more than 700 apprentices took part in voting for Carinthia's apprentice trainer of the year. RHI AG won in the category "more than 10 apprentices".

The Federal Ministry of Economy and Labour nominated RHI for the state price for the "Best apprentice trainer – fit for future 2008".

# Purchasing

Purchasing is part of the supply chain management and responsible for the majority of expenses in the Group. It is in charge of purchasing raw materials, commodities, technical and investment goods, services, energy, packaging materials and all transportation services. Purchasing is organised in a regional/local structure as well as a global/central structure in order to achieve optimum results. In the year 2008, expenses totalled € 926.6 million.

| | 2008 | 2007 | Change |
|---|---|---|---|
| Total | 926.6 | 875.6 | 5.8% |
| Raw materials | 470.0 | 459.5 | 2.3% |
| Energy | 95.6 | 79.9 | 19.6% |
| Transportation | 122.9 | 110.5 | 11.2% |

In comparison with 2007, the raw materials market was very difficult as, due to very high demand, the supply of production plants worldwide was only possible through excellent planning, timely procurement and central disposition. Chinese raw materials in particular had to be purchased at the right time and in larger volumes due to the high demand, the limited number of export licenses and also because of the Olympic Games in China. Despite all difficulties RHI managed to ensure the supply of all its plants at all times, while raising the total cost by only 2.3% for approximately the same volume as in the previous year.

**Massive influence of the oil price**

Expenses for energy were up approx. 19.6% on 2007. However, the raw material projects in China and South Africa must be taken into account as additional consumers. The average increase in cost of the main energy sources amounts to 10.6% adjusted for volume. This result was better than the industry average due to hedging measures that varied regionally. Timely hedging of energy prices is part of the purchasing strategy. The exploding crude oil price in mid-2008 and the resulting price of diesel also led to an increase in transportation costs. Moreover, the number of deliveries to customers increased by 19% from 330,000 to 395,000 within a year. The higher price of diesel, increasing road pricing costs in Germany, a shortage of means of transport (especially containers and freight capacity in bulk carriers) and the number of deliveries gave rise to an increase in expenses by 11.2%. In strategic terms, RHI was the first Central European company to transport raw material via the Trans-Siberian Railway. This important measure will reduce transport times from China to Austria by at least 30 days, thus contributing to a further improvement in transport times of raw materials and finished goods from and to China (or Russia).

Further strategic measures will continue to improve the purchasing performance and make it more effective. The organisational unit with logistics and process development in supply chain management has turned out to be correct and absolutely necessary in critical times such as the year 2008. Integrated demand planning made an essential contribution to provide the right material in the right place at the right time in the year 2008.

# 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, USD 60 million has already been paid.)

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

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. In the reporting period 2008, no further developments of material importance took place in the appeals procedure.

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.

“SUCCESS
DOES NOT
DEPEND
ON WHAT
YOU CARRY
IN YOUR
BAG,
BUT ON
WHAT YOU
CARRY
IN YOUR
HEAD.”

**Name**

Evelyn Ebner

**Job**

Apprentice in production technology

**Comes from**

Kindberg, Austria

**Has**

the key – not only for her automobile
but also through profound AutoCAD knowledge.

**Is**

convinced that RHI is the top company
for apprentice training

**Can**

take pleasure in plastics technology
in the form of her snowboard

**Personal short story**

Born in Bruck an der Mur, Austria, in 1990, Evelyn Ebner began her RHI apprenticeship in production technology at the plant in Veitsch, Austria in September 2008. Apart from top technical training, she also appreciates the wide range of additional courses including language and computer courses as well as personal development seminars, which RHI offers as a model apprentice training company.


**1** Backpack **2** Snack **3** Chewing gum **4** Hand cream **5** Tissues **6** Hat **7** Mobile phone **8** Car keys **9** Work keys **10** MP3 player **11** Work safety shoes **12** Work clothes **13** Tape measure **14** Screw drivers and pens **15** Ear defenders **16** Leatherman

# 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.

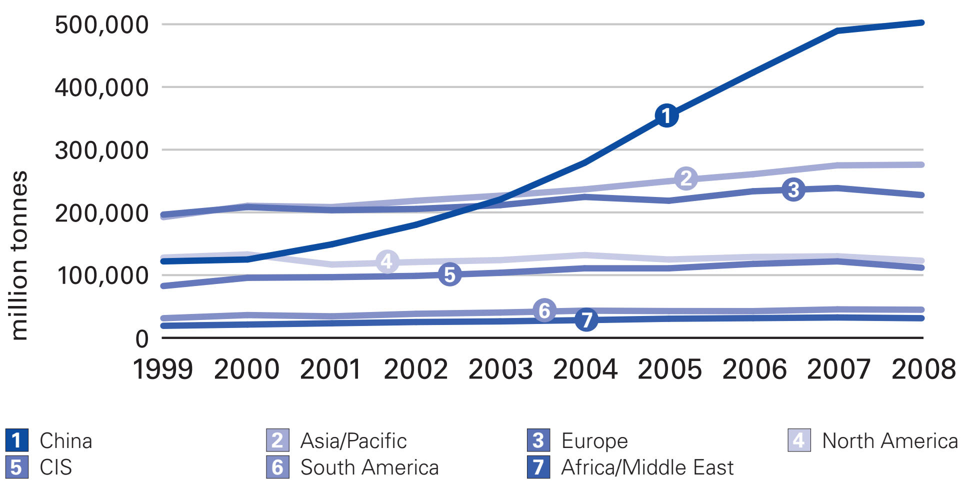
**RHI Group**

| in € million | 2008 | 2007 | Change |
|---|---|---|---|
| **Revenues** | **1,596.7** | **1,467.6** | **8.8%** |
| Segment Steel | 957.6 | 891.8 | 7.4% |
| Segment Industrial | 605.6 | 536.6 | 12.9% |
| Segment Raw Materials/Production | 1,012.5 | 958.9 | 5.6% |
| Consolidation | -979.0 | -919.7 | -6.4% |
| **EBITDA** | **216.1** | **217.0** | **-0.4%** |
| **EBIT** | **148.4** | **165.8** | **-10.5%** |
| Segment Steel | 83.9 | 82.7 | 1.5% |
| Segment Industrial | 86.0 | 66.7 | 28.9% |
| Segment Raw Materials/Production | -21.5 | 16.4 | -231.1% |

## Business development

The ongoing financial crisis and the repercussions of the soaring raw material prices until mid-year led the world economy into a recession in the fourth quarter of 2008. Incentives provided by monetary and fiscal policies were also unable to counteract this trend. According to IISI, the global steel output fell by 1.2% to 1,329 million tonnes compared to 2007.

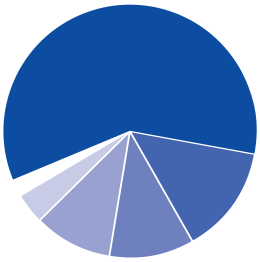
**World steel output**




RHI estimates the world refractories production at 40 to 45 million tonnes in the year 2008, with some 50% being produced in China. At 1.95 million tonnes, RHI's sales volume was roughly 2.5% down on the record level of 2007.

# Revenues and Earnings

**Revenues by industry**



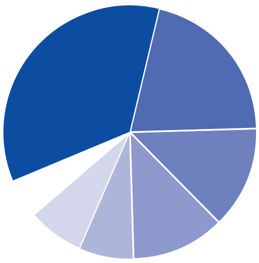
60% Steel
14% Cement/Lime
11% Glass
10% Nonferrous metals
3% Environment, Energy, Chemicals
2% Raw materials

Revenues of the RHI Group rose by 8.8% to € 1,596.7 million in 2008 (previous year: € 1,467.6 million). The prior-year figures were adjusted for Isolit-Isolier GmbH, which was divested within a management buyout on 1 September 2008.

While revenues developed positively in all regions and segments in the first three quarters of 2008, the steel industry entered a negative cycle due to the crisis in its customer industries, which was slightly dampened by China. The Steel Division was unable to defy this trend and recorded a 6.5% decline in revenues in the fourth quarter. Nevertheless annual revenues rose by 7.4%. At € 83.9 million, EBIT was slightly up on the previous year, the EBIT margin was 5.4% down.

The Industrial Division reported an increase in revenues by 7.8% even in the fourth quarter. Over the whole year 2008, revenues rose by 12.9%. With EBIT amounting to € 86.0 million (previous year: € 66.7 million) and an EBIT margin of 14.2%, the Industrial Division recorded its best result to date.

**Revenues by region**



35% Western Europe
21% North America (incl. Mexico)
13% Eastern Europe
12% Asia/Pacific
7% Africa
7% Near/Middle East
5% South America

In the Raw Materials/Production Division, revenues increased by 5.6% despite a decline in external revenues from Turkish raw materials. The operating result of € -21.5 million results from stepped-up precautionary measures and the massive increase in energy, transportation and raw material costs in 2008. The prices charged internally between the divisions are set once per year in January at RHI – no adjustment was made during the financial year 2008.

Cash flow from operating activities 2008, at € 123.5 million, fell short of the prior-year figure of € 155.1 million.

Cash flow from investing activities amounted to € -73.2 million in 2008 (previous year: € -102.4 million). At € -76.7 million, capital expenditure was slightly below the prior-year figure of € -78.7 million, which was mainly attributable to investments in the Chinese raw material plants as well as investments in Austria and Germany. Moreover, two ISO plants were acquired from the Cookson Group plc, the owner of Foseco, in April 2008.

Cash flow from financing activities amounted to € -34.9 million in 2008 (previous year: € -81.9 million) and predominantly consisted of loan repayments and interest payments.

**RHI Group: Cash flow**

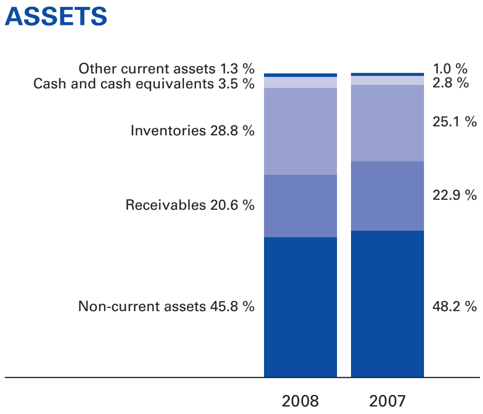
| in € million | 2008 | 2007 | Change |
|---|---|---|---|
| **Continuing operations** | | | |
| Cash flow from operating activities | 123.5 | 155.1 | -20.4% |
| Cash flow from investing activities | -73.2 | -102.4 | 28.5% |
| Cash flow from financing activities | -34.9 | -81.9 | 57.4% |
| Cash flow from continuing operations | 15.4 | -29.2 | 152.7% |
| Cash flow from discontinued operations | -2.2 | -1.8 | -22.2% |

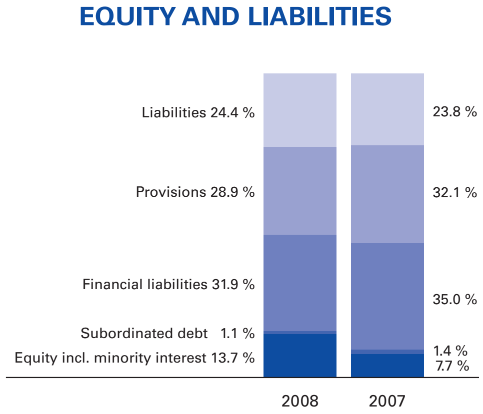
# Profit Development and Balance Sheet Structure

Profit before income taxes from continued operations was down 11.5% to € 113.4 million in 2008 (previous year: € 128.2 million). The tax rate in the reporting period, at 10.2%, was below the prior-year figure of 11.8%. The RHI Group's profit for the year thus amounted to € 101.8 million, compared with € 113.1 million in the financial year 2007.

Profit attributable to minority interest amounted to € 2.5 million in 2008 (previous year: € 1.6 million); profit attributable to the equity holders of RHI AG thus equalled € 98.1 million (previous year: € 109.4 million). Basic earnings per share based on the average number of shares of RHI AG issued in 2008 amounted to € 2.64 (previous year: € 3.12); including all potential shares from RHI convertible bonds, diluted earnings per share.

## Balance sheet structure

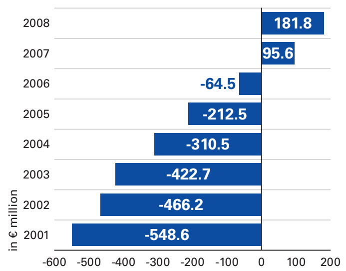



The balance sheet structure is characterised by a relatively high capitalisation ratio and a long-term financing component, which are typical of the industry. The balance sheet total was up significantly on the previous year due to the acquisition of the Deltek business (formerly Foseco) and the investments in the Chinese raw material joint venture and the higher working capital, which rose by 6.7% to € 1,323.3 million in the course of the business expansion. The increase in inventories is primarily attributable to strategic purchases of raw materials in the summer of 2008, which were made in the light of the tense market situation. The increase in finished and unfinished products primarily resulted from orders that were cancelled or postponed by customer industries due to inventory reductions and put off to the next year.

The decline in personnel provisions is a result of actuarial gains.

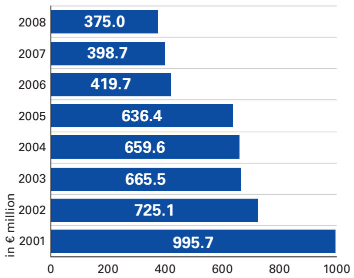
## Equity development




In 2008 RHI increased its equity further; it amounted to € 181.8 million at 31 December 2008 (previous year: € 95.6 million). Equity had been negative since 2001, even when including the subordinated mezzanine capital, due to the required restructuring measures. With effect from 31 December 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 2008, the consolidated balance sheet shows subordinated debt from convertible bonds in the amount of € 13.9 million (previous year: € 17.2 million). Conversion is possible until 31 December 2009.

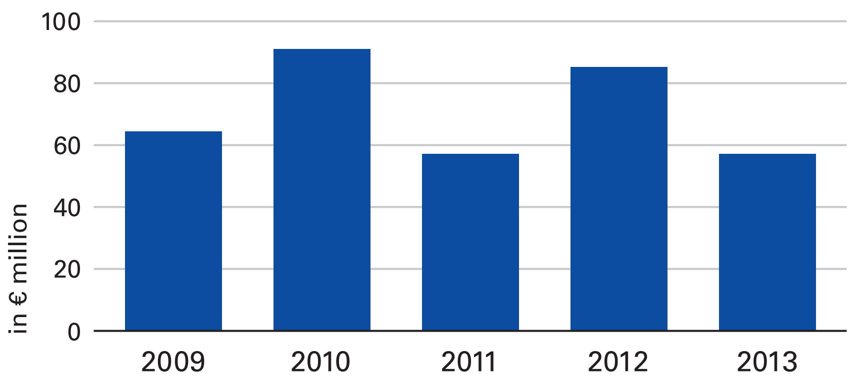
**Net financial liabilities**




The consolidated balance sheet at 31 December 2008 shows financial liabilities in the amount of € 421.3 million; less cash and cash equivalents equalling € 46.3 million, net financial liabilities amounted to € 375.0 million (previous year: € 398.7 million). Net financial liabilities correspond to the 1.7-fold EBITDA and are thus at the level of the previous years. The gearing ratio was 206.3% on the balance sheet date.

72% of the liabilities to banks have a term between one and five years; the remaining 28% is due in less than one year. At 31 December 2008, 75% of liabilities to banks carried a fixed average interest rate of 3.24%; the remaining 25% carried a 5.33% variable interest rate.

The repayment structure of the most important loans at 31 December 2008 looks as follows:




At 31 December 2008, RHI had unused credit facilities amounting to € 121.3 million with Austrian and foreign banks, and a lines of credit from the sale of receivables in the amount of € 100.0 million, roughly 80% of which was used.

**Name**

Dietmar Wiedenhofer

**Job**

Supervisor RHI AG
SEESR - Technical Service

**Comes from**

Bruck an der Mur, Austria

**Has**

an address in Qatar in the next few years

**Is**

knowledgeable in all refractories segments
as a "handyman"

**Can**

keep a cool head in the face of major challenges

**Personal short story**

Having joined RHI in 1988, Dietmar Wiedenhofer began an apprenticeship as an industrial electrician at the Breitenau plant, and then transferred to work as a miner.
From 1996, he held positions as a supervisor, first at the Veitsch plant, then in Radenthein. After freelance activities for RHI, he once again joined the Radenthein plant as a supervisor in 2005. As a specialist in the areas of steel and machinery, but also in cement, copper, lead, glass and lime, Dietmar Wiedenhofer managed the Qatar Steel project between 2005 and 2006, and will take over this project again as of June 2009.


**1** Suitcase/travelling bag **2** Book: "Finally non-smoker" **3** Book: "The art to think about money" **4** Nasal spray **5** Camera **6** 2 mobile telephones **7** Bunch of keys **8** Tape measure **9** Sunglasses **10** Drawings of linings **11** Torch **12** External hard drive **13** Folder with documents **14** MP3 player **15** Safety shoes **16** Helmet and safety clothes **17** GPS

“SUCCESS
IS TO
PLAN YOUR
ITINERARY
THOROUGHLY
AND THEN
TAKE THE
PATH
LEAST
TRAVELLED.”

# Steel Division

Steel production was characterised by two greatly differing periods in 2008 – constant growth was succeeded by a rapid decline in production. Worldwide, the monthly steel output fell from 116 million tonnes in the first half of the year to 84.4 million tonnes. Steel output dropped by 1.2% from 1,345 million tonnes to 1.329 million tonnes in 2008.

Although steel output in China grew more slowly, it surpassed the threshold of 500 million tonnes p.a. In 2008, steel production was up 2.5% on the previous year; in 2007, the growth rate was still 15.3%. The CIS countries suffered the greatest decline at minus 8% (previous year: +3.5%).

Despite this substantial decline in the global steel output, the Steel Division recorded a 7.4%.increase in revenues.

Following the acquisition of two former Foseco plants, RHI is now the world's second largest producer of isostatic products. The plants in Bonnybridge (UK) and Saybrook (USA), which produce isostatic products, were purchased from Vesuvius (Cookson Group) in April 2008.

The prices of the raw materials required for refractories production skyrocketed in the first nine months of 2008, due to both shortages (bauxite, fused magnesite) and the export quotas imposed by China. Higher energy costs also increased production costs. These price increases on the cost side were compensated by corresponding increases in selling prices.

In 2008, RHI strengthened the marketing, sales and research segment through former Foseco employees, especially in the area of isostatic products. New FLS contracts (Full Line Service) and contracts based on the cost per tonne of steel were successfully continued.

Through its cooperation with Stopinc, RHI gained further customers in the steel industry thanks to new slide gate systems. The development and commissioning of machinery for repair and removing scrap material developed by RHI enabled us to conquer new markets.

**Segment indicators**

| in € million | 2008 | 2007 | Change |
|---|---|---|---|
| Revenues | 957.6 | 891.8 | 7.4% |
| EBIT | 83.9 | 82.7 | 1.5% |
| EBIT margin | 8.8% | 9.3% | -5.4% |

**Western Europe**

In Western Europe steel production recorded a decline by 4% in the reporting period (previous year: +1.4%). Despite the dramatic production cutbacks in the fourth quarter of 2008 RHI increased its market share by 9.1% compared to the previous year.

Due to the development of new materials and the continuous integration of the customers' production processes, RHI is considered not only a supplier but rather a competent partner.

**Eastern Europe**

In Eastern Europe, production decreased by 8.7% compared with 2007, with the Ukraine and Russia recording the greatest declines at -13% and -5.4% respectively. Nonetheless, RHI increased revenues by 2.2% in this region.

Having established sales companies in Russia and the Ukraine, RHI was in a position to offer its customers better service locally. Other important factors were the technical cooperation with Stopinc and the acquisition of the Foseco production plants, which helped RHI expand its market share in the flow control sector. Moreover, the conclusion of new FLS contracts and contracts based on the costs per tonne of steel extended RHI's presence in the market.

**Africa, Near/ Middle East**

In the region Africa, Near/Middle East, production declined by 1%, while RHI's revenues rose by 1.5%. However, it must be taken into account that in several countries invoicing denominated in US dollars was introduced, which significantly increased in value in comparison with the euro in the first half of the year.

A second contract providing a package solution including machinery, refractories and service, which was signed with Qatar Steel, must be particularly pointed out. It confirms RHI's customer policy aiming at providing innovative solutions to cut production costs.

**Central and South America**

Despite a 1.3% decline in production in this region and the dollar strengthening against the euro, RHI's revenues increased by 11%.

Especially in Mexico and Brazil, revenues were increased thanks to the local sales and marketing organisation. The organisation in Brazil was strengthened by highly experienced technical and commercial staff. This new sales organisation has enabled RHI to supply major local customers with technical and commercial solutions in accordance with their requirements.

**North America**

The 6.3% decline in steel output was especially tangible in this region. Despite the unfavourable development, revenues increased by 11.1%.

In 2008, RHI benefited from what the marketing and the technical service departments achieved in 2007. Above all, the close cooperation with Stopinc and the acquisition of the production facility in Saybrook (isostatically pressed products for continuous casting) formed an important basis for gaining new customers in the flow control sector.

The cooperation of RHI metallurgists with customers, which enabled us to offer new materials, machinery and systems to produce high-grade steel, was also of great importance.

**Asia/Pacific**

Asia and the Pacific region were the only regions worldwide whose steel output rose in 2008. Growth amounted to 1.8% and was driven by China, which surpassed the threshold of 500 million tonnes, and South Korea.

The commissioning of the RHI raw material plant in China enabled the Chinese production sites to increase the quality level of their own products.

The increase in the number of delivery contracts in Vietnam, which were concluded due to increased technical and metallurgic support, is also worth mentioning.

The establishment of a technical and commercial organisation as well as local production facilities and the introduction of RHI sales concepts (e.g. contracts based on cost per tonne of steel) enabled RHI to further increase its market share in India.

# Industrial Division

The 2008 result of the Industrial Division has shown once again that the strategic orientation of the Industrial business units meets the requirements of the individual customer segments to a very high degree.

Due to the exceptionally high order level at the end of the third quarter, the economic crisis beginning in the fourth quarter did not yet have any negative effects on the result of the Industrial Division.

Globally operating customers prefer partners who can guarantee secure supply with high-grade refractory systems based on a globally positioned production and sales network.

Moreover, customer aggregates with sophisticated process technology increasingly require specific service and advice packages. Through the continuous expansion of its technology leadership and the capacity to solve problems, RHI did justice to this development, more so than its competitors.

**Segment indicators**

| in € million | 2008 | 2007 | Change |
|---|---|---|---|
| Revenues | 605.6 | 536.6 | 12.9% |
| EBIT | 86.0 | 66.7 | 28.9% |
| EBIT margin | 14.2% | 12.4% | 14.5% |

**Cement & Lime**

While primary production developed positively or stabilised at a high level in the first three quarters of 2008, a significant cutback of cement production capacity, driven by the financial and economic crisis varying regionally, was to be observed in the fourth quarter.

In Russia, Latin America and the Middle East new cement capacities were established, with RHI participating successfully in this market due to its engineering and product know-how.

In Spain, Europe's largest cement market, cement production dropped roughly 50% as a result of the property crisis. In other important European markets declines are estimated to be much lower; in Germany for instance, a drop by 3-4% compared to 2008 is expected.

In the USA, the effects of the international financial and economic crisis were clearly tangible. Starting in the third quarter, cement capacities were taken from the market, which in turn had a negative impact on demand for refractories.

However, the crisis also offers RHI opportunities, as demand in the North American market is no longer exclusively for high-grade refractory solutions. Due to both its wide-ranging product portfolio and the distribution of production sites throughout the world, RHI can offer alternative solutions and optimally support customers.

China, the largest growth market for cement not only in Asia but worldwide, has great importance for RHI. Despite a highly competitive environment, RHI expanded its market share further. The cooperation with Chinese kiln manufacturers, who increasingly rely on the quality Chinese RHI products, was particularly successful.

As the business cycle was strong worldwide over a long period of time, 2008 was the year with the highest revenues in the lime segment. This success was primarily characterised by new plant business and numerous major repairs, for which customers repeatedly relied on RHI's expertise and high product quality.

In China, further projects were realised and thus a tangible market share of reference character attained. In Russia and other CIS countries, RHI gained a foothold again after a long break. The Western European market share remains stable at a high level. This also applies to the Latin American market, where strong sales volume was recorded again in 2008.

The world market share of RHI AG in the lime kiln segment was once again increased in 2008.

Sales volume, revenues and the contribution to earnings of the Business Unit Cement-Lime rose significantly in comparison with the previous year.

**Glass**

The glass market developed positively in all segments important to the refractories sector in 2008, though varying regionally. However, towards the end of 2008, projects were put off, indicating that business will also decline in the glass market in 2009.

Hollow glass, the strongest segment in terms of volume, recorded slight growth again in 2008. Only in a few regions such as Mexico the positive trend of the last few years did not continue. The most substantial growth in container glass production was recorded in Eastern Europe and the CIS countries.

The order situation for flat glass producers, especially for the architecture segment, was highly satisfactory in 2008. This situation was carried by the ongoing building boom in the states of Asia, China, the CIS and the Gulf region, whereas several float glass tanks were decommissioned in the USA. As solar activities were stepped up, flat glass producers were driven to build new manufacturing lines in 2008. Therefore, the flat glass segment was once again the glass segment recording the highest growth for RHI refractory products.

In the special glass segments, new production lines for TFT glass were commissioned in 2008, in which RHI participated as a supplier.

One of the focal points of the Business Unit Glass in 2008 was to build a sales organisation for the US market. The objective is to increasingly provide manufacturers in North America with complete solutions. Activities in the flat glass segment, which has a promising future, were stepped up further. In Europe and the USA, projects were acquired in 2008; in China, the market position was expanded with products made at the Dalian plant.

Sales volume and revenues rose again on the previous year, so that 2008 represented another record year for the Business Unit Glass.

**Nonferrous metals**

In the nonferrous metals segment, the year 2008 was characterised by great fluctuations in metal prices. While prices hit a record high at the end of the first quarter, a substantial, in some segments historic, drop in prices was recorded in the fourth quarter.

RHI reported above-average revenues especially in the ferroalloy segment, which had a significant influence on the record revenues of the entire nonferrous segment, while profitability remained nearly unchanged at a good level. The focus was placed on ferronickel projects in Brazil and South Korea, where RHI gained significant market share with important customers, while at the same time extending the excellent cooperation with important plant manufacturers.

In the copper industry, solid third-party business was reported due to full capacity utilisation at most metallurgical plants and consequently very high wear rates. In project business, important new projects were realised with different kiln manufacturers, thus further strengthening the robust market position in this segment.

The same is true for the aluminium industry, where solid results were achieved above all in the secondary aluminium segment despite substantial price pressure on the raw material side for bauxite-based refractories. In the primary aluminium industry, increased emphasis was placed on the Persian Gulf, where the strongest growth of the aluminium industry is expected to take place in the coming years.

The record result realised in the nonferrous metals segment in 2008 shows once again that customer requirements in the areas of process technology, computer simulation and in devising customised refractories concepts for key aggregates were satisfied through globally unique focussing on the part of RHI. With this comprehensive support and service component, RHI has succeeded in securing continued market leadership in the nonferrous metals sector in the future.

Both sales volume and revenues of the Nonferrous Metals Business Unit in 2008 exceeded the high level of the previous year by far, with the contribution to earnings roughly equalling the prior-year value despite a considerable increase in the price of raw materials.

**Environment, Energy, Chemicals**

2008 was the most successful financial year for this business unit to date. Carried by the high energy prices, many plant operators built new plants or extensions to increase capacity.

As in the previous year, the focus was again place on Canada and the Middle East, where RHI implemented projects for plant manufacturers. In Asia and South America RHI also supplied larger new plants. Customers appreciate RHI not only as a supplier of materials with a top quality standard, but also as a competent partner for concrete solutions to problems and for new plants.

Apart from the above-mentioned high number of new projects, RHI also managed to extend standard business. The extension of the product range, for instance by special products for oil refineries, helps RHI to act as a provider of complete packages in this area as well.

The environment/energy segment benefited, amongst other things, from an increased environmental awareness, higher energy costs as well as a growing demand, which leads to the construction of new plants.

In the chemicals/petrochemicals sector, the investment climate for new plants or extensions to existing plants was also favourable due to the high oil and gas prices.

Sales volume, revenues and contributions to earnings rose considerably on the previous year, to which the segment of chemical and petrochemicals made an above-average contribution.

# Raw Materials/Production Division

Revenues in the Raw Materials/ Production Division totalled € 1,012.5 million in 2008 (previous year: € 958.9 million), of which € 979.0 million (Previous year: € 919.7 million) was accounted for by deliveries to the RHI Group and € 33.5 million (previous year: € 39.2 million) by external customers. EBIT of the Raw Materials/Production Division amounted to € -21.5 million (previous year € 16.4 million) and results from increased precautionary measures and the soaring energy and raw material prices, which were not adjusted internally vis-à-vis the Steel and Industrial Divisions during the year.

**Segment indicators**

| in € million | 2008 | 2007 | Change |
|---|---|---|---|
| Revenues | 1,012.5 | 958.9 | 5.6% |
| EBIT | -21.5 | 16.4 | -231.1% |
| EBIT margin | -2.1% | 1.7% | -223.5% |

In the first 10 months of the year the demand for raw materials was very high due to the good development in revenues in the Steel and Industrial Divisions, and exceeded the level of the previous year significantly. The raw material market was initially characterised by extreme price increases and very short supply in 2008. Triggered by high energy prices and soaring prices for raw materials from China, a trend towards rising raw material prices was created throughout the world. Moreover, the situation in China was characterised by increasing export restrictions for raw materials (fewer licenses, high prices for licenses, higher export tax rates). In this environment, the prices of Western producers rose as well.

RHI's own raw material plants in Austria, Italy, Turkey and South Africa enjoyed full capacity utilisation until the third quarter of 2008.

At the new raw material plant in China, the fused magnesia production segment was commissioned in June 2008. By the end of the year, the installation of the production line for high-grade sintered magnesia was also largely completed. Starting in January 2009, this line will be commissioned gradually and will, in the future, produce high-grade raw materials together with the fusing line.

In September, a project to build a third shaft kiln was started at the Turkish raw material plant. With investments totalling € 4 million, production volume is to be raised by 25,000 tonnes p.a. starting in mid-2009.

In the first 10 months of 2008, the production of finished products exceeded the level of the previous year by approx. 5%. Due to the crisis and the resulting decline in capacity utilisation in the last two months, the value for the whole year 2008 roughly equals the figure of the previous year.

Investments focused on the following areas in 2008:

>> The second tunnel kiln at the Indian plant was commissioned;
>> In Radenthein, Austria, dust filters were installed in the tunnel kilns, which enable us to stay clearly below the required limits;
>> At the plant in Urmitz, Germany, a project to upgrade the production line for functional products was launched.

The Operations Excellence (OPEX) project focused on optimising procedures and processes in 2008. To that end, Six Sigma projects were started at the plants, and 20 employees trained in this methodology. Following that, these employees are supposed to conduct and manage improvement projects independently as so-called "black belts". At the same time, the shop floor area of the plants was increasingly introduced to the OPEX philosophy through several workshops. The managers will take over any further activities required, thus securing the further development of a change in culture and a sustainable establishment of management and working principles.

**Environment**

The use of energy and resources required in the production of refractories is optimised thanks to internally developed energy efficiency programmes, which are set out for the specific requirements of the refractories industry. This has enabled us to lower specific energy consumption further. Energy efficiency programmes are continuously improved and adapted in order to ensure a rapid response to ever changing requirements (IPPC-BAT).

The production of unfired bricks was changed over to a non-toxic carbon bond.

A change of bonds in fired bricks caused a substantial reduction in sulphur emissions.

Moreover, we managed to reduce total waste cost in comparison to the previous years. This became possible because of a reduction in ceramic waste, amongst other things.

In the implementation of the REACH directive last year, special importance was attached to the pre-registration of all substances required or circulated by RHI, which was carried out according to plan.

At the European level, contributing to the latest BAT reference document for magnesia production was one of the focal points of the previous year.

1IPPC: Integrated Pollution Prevention and Control; BAT: best available techniques

# Revenue and Earnings Outlook

The deepened global recession will have a significant impact on the business development in the year 2009. The decline expected in world steel output will have an adverse effect on the Steel Division. In the first months of 2009, a decline in orders by approx. 30% was recorded, with first signs indicating a bottoming out recently.

The Industrial Division has so far reported incoming orders exceeding the level of the previous year, but with some delay the substantial effects of the world economy's development have also become tangible in this segment:

In the cement segment, capacities in Western Europe, the USA and Russia were cut back considerably in the first months of 2009. The demand for refractory materials is declining in these regions. For India, the Middle East, Africa and China the business development is expected to maintain the level of the previous year.

The lime industry was still characterised by good operating activities in the first quarter of 2009; however, projects were postponed due to the global economic downturn. For the whole year of 2009, a decline in sales volume below the prior-year level is to be expected.

In the nonferrous metals segment, the trend towards lower prices, which started in 2008, is continuing in 2009. Larger projects for copper, lead or zinc plants have been postponed or cancelled. In the customer segment aluminium the low price level, coupled with substantially lower sales volume, has caused first liquidity problems among customers. In these segments, refractories sales volume will fall clearly short of the figures of the previous year.

In the glass segment, the first half of 2009 is still characterised by the order backlog from the previous year. A steep decline in orders is to be expected for the second half of the year, however. All major glass manufacturers have postponed their projects scheduled for 2009 to at least 2010. Many production lines have been decommissioned for the short term; repairs have been reduced to a minimum.

This trend is global, with the steepest declines being recorded in the CIS, America and Asia. In relative terms, the Near/Middle East and China are slightly less affected. Overall, the record result of 2008 will be missed by a wide margin.

In the project business in the environment, energy, chemicals segment, first signs of a slow-down are identifiable. Projects scheduled for this year, however, will possibly still be implemented. In the medium term, projects will be increasingly postponed due to the very low oil price and increasingly difficult financing; individual projects have been cancelled completely.

The business development in the Raw Materials/Production Division has so far been characterised by low raw material prices an a low level of capacity utilisation. The global economic recovery packages should show some positive effects on the customer side in the second half of 2009.

Based on the current framework conditions, RHI expects a significant decline in revenues and earnings in the financial year 2009. However, these decreases in price and volume are offset by declining raw material and energy costs.

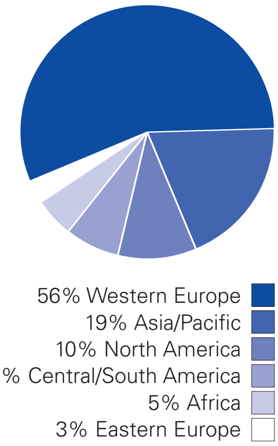
In 2008, RHI already started to adjust production volume to market requirements by bringing forward maintenance work, thus reducing capacity by up to 50%. Moreover, planned investment projects were postponed and ongoing projects finished at reduced volume. In addition to that, optimisation measures effective in the short term were taken in the first weeks of 2009. They include the introduction of flexible working hour models as well as reduction of current assets.

Currently a comprehensive package of measures to optimise structure and efficiency is being developed in order to further improve RHI's positioning. Based on the new, more market-focused organisation, the divisions become profits centres which secure our market and technology leadership and enable RHI to gain further market share.

This reorganisation of the Group coincides with a programme to increase efficiency. The objective of this programme is to cut costs by approx. € 80 million; half of this amount is to become effective in 2009. Both material and personnel costs will be adjusted to the new, future-oriented structure.

# Employees

**Employees by region**




The number of employees rose from 7,207 to 7,692 in 2008 due to the further growth of the Group. This increase by roughly 7% is attributable above all to the production sites in China.

56% of the employees working for the fully consolidated companies of the RHI Group were employed in Western Europe, 19% in Asia, 7% in Central and South America, 10% in North America, 5% in Africa and 3% in Eastern Europe. 1,873 people were employed in Austria at the end of 2008.

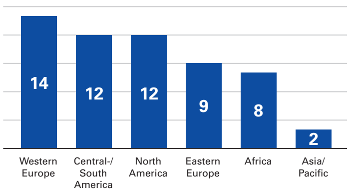
On average, 87% of the employees were male and 13% female in 2008. Although this is not an untypical picture in the industry, a project aiming at making RHI a more attractive employer for women was launched in 2008. To that end, equal opportunities for men and women at RHI are to be communicated even better. Moreover, RHI has begun to implement measures to increasingly get girls interested in training for production-typical professions. Following the necessary constructional adaptations in 2008, this will be a focal point in apprentice training in 2009.

The share of female executives was increased again in 2008. Overall, however, it still is not satisfactory. HR Marketing will therefore increasingly concentrate on employing highly-qualified women at RHI.

In a globally operating company like RHI, there must be no reservations against colleagues of different skin colour or cultural background. RHI employs people of 12 different nationalities at the Vienna headquarters alone; worldwide, RHI has employees of 65 different nationalities.

At the apprentice workshop at the Radenthein, Austria, plant, a successful project aiming at the integration of disadvantaged young people has been running for years. These are young people with learning disabilities or physical disabilities, who are given the opportunity to learn a trade in the course of an apprenticeship at RHI.

**Number of years employees stay with RHI; by region**




Despite the difficult climate based on a highly mobile labour market in 2008, the fluctuation of RHI employees did not increase nationally or internationally. This high level of loyalty is evidence of a strong and good corporate culture at RHI and of functioning retention programmes. In Austria, employees stay with RHI for 14 years on average, globally for 11 years.

## Training in the RHI Group

All RHI locations placed a special focus on apprentice training in 2008 due to a massive shortage of skilled workers. The apprentices receive additional training at RHI's training workshops. RHI attaches special importance to the development of young people not only in professional training but also in their personality. By international postings young people are to be familiarised with the requirements of an internationally operating company at an early stage. Consistent and continuous training and further education will secure experienced and highly motivated staff for RHI in the future.

**Personnel development**

In the year 2008 personnel development focused on a further internationalisation of the multi-level executive programmes. In China, the training cycles were completed successfully, and the programme was also launched for Latin America. The objective is to increasingly replace expatriates with local managers in the medium term. For the planned further growth of RHI AG it will be necessary to be able to fall back on as large a number as possible of qualified and experienced managers worldwide. RHI is therefore also on track at the international level to qualify as a preferred employer in the industry and in the respective regions.

Further focal points in personnel development for 2008 included the further development of the top tier of managers along with other experienced and long-serving managers of the Group in strategic competence. Within the framework of the Management Lounge, international training involving all renowned business schools was organised for top-level managers. The most productive and the most knowledgeable staff of RHI, some of whom have been with the company for decades, were given the opportunity to expand their leadership competence in an intercultural environment within the framework of high-quality training programmes.

In addition to that, a general catalogue of training opportunities exists, which is accessible to all employees who wish to enhance their qualification. In 2008, special importance was attached to personnel development and leadership seminars.

The leadership principles developed for RHI in 2007 (cultural variety and mobility, interdepartmental thinking, make decisions – bear the consequences, acting as a role model, challenge and promote) were included in the mandatory annual appraisal interviews in 2008, thus contributing additionally to the further development of a strong corporate culture in a global environment.

## Safety at work

Industrial accidents and the resulting consequences rank among the main risks in the HR sector. Non-compliance with national laws and guidelines may in extreme cases lead to a shutdown of entire plants or parts of plant. RHI therefore attaches great importance to this topic. RHI also implements the highest industrial safety standards in those countries where the local authorities do not take such issues very seriously. As a result, fatal industrial accidents were prevented, and the overall number of industrial accidents was reduced further.

The principle of leadership by targets has proven its value at RHI over many years. The required appraisal interviews are conducted with great commitment on the part of both employees and their superiors and supported by appropriate training programmes.

**Performance-based compensation systems**

Depending on an employee's tasks, up 30% of the annual income is variable and dependent on accomplishing individual and group targets, which are agreed with the respective manager at the beginning of the year.

In selected production segments at the Radenthein and Trieben plants, Austria, RHI started to share 30% of the productivity progress accomplished per manufacturing segment with the respective employees. This model is scheduled to be gradually implemented at all RHI production sites.

**Social partners**

RHI considers its employee representatives worldwide business partners. When dealing with the works council, these activities are always characterised by openness and honesty. This enables us to solve even difficult issues together and to the satisfaction of all employees.

To increase the qualification of works council members continuously, a special training programme for staff representatives was launched (Works council academy), initially in Austria and Germany). RHI's objective is to continue secure the high level of its works council, in order to also solve difficult issues with the social partners in the future.

**Personnel indicators**

| | 2008 | 2007 | Change |
|---|---|---|---|
| Revenues in € million | 1,596.7 | 1,467.6 | 8.8% |
| Personnel expenses in € million | 338.1 | 320.9 | 5.4% |
| Average annual number of employees | 7,692 | 7,207 | 6.7% |
| Number of employees at 31 December | 7,766 | 7,272 | 6.8% |
| Personnel expenses in % of revenue | 21.2 | 21.9 | -3.2% |
| Personnel expenses per employee in € 1,000 | 44.0 | 44.5 | -1.1% |

# Research & Development

**Strategic orientation towards innovation**

In the technology-driven environment of RHI AG, technology and product leadership is expected from the world market leader. It is therefore a central element of corporate strategy that great importance is attached to research and development. Commitment to the permanent development of both existing and new product and technologies is laid down in our fundamental values: power of innovation, openness and reliability.

The central element of this strategic approach is strengthening R&D networks comprising customers, the market, national and international university departments and research institutions, as well as our own resources with excellent technical expertise. With short communication paths, professional project administration and R&D services, we are definitely setting the highest standard by far in the competitive environment and characterise RHI's success story.

**Targeted orientation to sustainability**

Building on the base of the Technology Center in Leoben, RHI develops strategically important projects in close cooperation with the Steel and Industrial Divisions as well as their business units. This lays the foundation for both short and long-term economic success through consistent focus on the customer. It ranges from the raw material deposits and their potential, over the development of dimensionally accurate raw materials and intermediate products (which may be natural or synthetic), to unconventional product innovations which solve the most challenging refractories-relevant problems of the broad customer spectrum. State-of-the-art simulation and modelling techniques, as well as wide-ranging contacts with national and international universities and institutions are critical. In the reporting period, expenses for R&D amounted to € 20.9 million, approx. 1.3% of the Group's consolidated revenues.

The most important R&D objectives are:

>> Development of innovative natural and synthetic raw materials
>> Concepts for utilising refractory recycling materials
>> Development of new refractory system solutions for all customer industries
>> Continuous development of production technologies for basic materials, intermediate and finished products
>> High-temperature sensor technology for stress and wear analyses in product performance
>> Modelling and simulations for the development of raw materials, customer and RHI production processes as well as for the design of products and the engineering of linings
>> Optimisation of the environmental impact in the production and application of refractory raw materials and products
>> Application-oriented basic research in the areas of thermal mechanics, thermal chemistry and the corrosion of refractory products in operation.

R&D exercised a central function within the framework of technology transfer and technological integration of the Deltek business, which was acquired in 2008 and has plants in Scotland and the USA.

Moreover, investment projects – above all the raw material joint venture in China, which is currently in the start-up phase, are successfully accompanied by R&D.

Another important task of R&D is the active management of intellectual property in the form of patents, trademarks and securing know-how in the context of the acquisition made. In 2008, RHI's patent portfolio was strengthened by new patents registered in the areas of product formulation, product geometry and product use. As a result of the acquisition of Deltek, the volume of industrial property rights increased significantly in the flow control segment, with a focus on isostatic products.

**R&D performance 2008**

Examples of the results of R&D projects include the following:

>> For steel degassing plants, the useful life of magnesia chromite bricks was substantially improved by means of a new technology, as shown in first practical tests.
>> In the area of slide gate ceramics, the productivity of the entire system was enhanced through a novel surface treatment.
>> New, processing-friendly products which allow for repairs with shorter down times were developed for the use in the petrochemical industry.
>> The development of simulation methods for energy optimisation in customer processes, for the analysis of corrosion mechanisms of refractory materials and thermo-mechanical stress on refractory products and linings was advanced further.
>> New self-hardening, contaminant-free mixes were developed for the steel tundish and have already been successfully applied in practice.
>> High-performance ceramic materials have been successfully introduced in the flow control segment.
>> New insulating materials are used for isostatically pressed products.
>> In 2008, all raw materials and additives in use were pre-registered in the course of the introduction of REACH in accordance with the requirements of the EU:
>> Work on thermo-mechanical behaviour, new test procedures, the corrosion behaviour of refractory construction materials, electrochemistry and simulation (CFD, FEM, process simulation), which was conducted together with University of Leoben, were advanced further in close cooperation.
>> The objective of a further reduction of dust emissions in the production of shaped fired magnesia products led to the development of a new bond system.

**Investments in the power of innovation**

More than 150 experts in the R&D team at the technology centre and the locations of the RHI Group are active for the RHI Group around the world and around the clock.

Together with renowned university departments, R&D makes a significant contribution to training and further education as well as conveying special refractories knowledge throughout the entire RHI Group, thus ensuring that the latest findings and developments are rapidly applied to benefit our customers all over the world.

# Risk Management

RHI is exposed to a variety of risks as a result of its business operations, which require systematic and continuous risk management.

Therefore, a project to introduce risk management throughout the Group was launched in 2008. The project is scheduled to be completed by the end of 2009.

In the first phase of the project, the Management Board of RHI AG established the main risk areas, i.e. strategy, sales volume, production, supply chain, research & development, employees, finance, IT, compliance & legal matters and investments & M&A in a comprehensive risk framework.

RHI defines risk as a possible future deviation from a planned target figure (EBIT) over a two-year observation period.

The management of the risk areas is exercised by the risk owners who control operating activities in these areas after the conclusion of the project. The risk areas are broken down further into risk categories, to which individual risks are allocated at the lowest level. In the future, these risks will be recorded quarterly and quantified by local risk owners in the operating units.

The staff unit Group Risk Management, which now reports the Management Board, is responsible for the entire risk management process, provides for the validation and consolidation of the centrally recorded risks and reports to the stakeholders of the risk management process (Management Board, Supervisory Board, managing directors, risk owners).

Risk policies and guidelines of operating risk management are laid down in a risk manual, which will be integrated as mandatory throughout the entire Group within the global roll-out planning in the year 2009. RHI plans to use a professional risk management system.

**Financial risks**

The management of the financial risks is embedded in RHI's group risk management.

The Management Board is responsible for the definition of risk policies. 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.

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.

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 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.

The Group's financial policy is based on long-term planning, and is managed and monitored centrally. The liquidity requirements defined in the planning process are met through the conclusion of appropriate financing agreements.

As of 31 December 2008 the RHI Group had unused, immediately available lines of credit totalling € 121.3 million. These facilities were concluded with different Austrian and international banks in order to ensure the Group's independence from specific financial institutions.

The companies are integrated into a clearing process managed by the central treasury department and subject to financing limits. This reduces the need for financing at the overall Group level.

The objective of risk management in this area is to minimise possible losses through the monitoring and management of these risks considering the related opportunities.

Foreign exchange risk arises above all in countries where business transactions (operating activities, investments, financing) are conducted in a currency other than the functional currency of a company. Decisions on the use of hedging instruments are based on the Group's net position in the relevant currency. In the reporting period, a large part of the net surplus in receivables in USD was hedged by futures.

Interest rate risk in the RHI Group is primarily related to financial instruments carrying variable interest rates which may cause fluctuations in earnings or cash flows. The RHI Group is exposed to interest rate risk primarily 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% of fixed-interest instruments and approx. 25% 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.

**$CO_2$ certificates**

Due to the insufficient allocation of emission certificates, RHI will have to buy additional certificates at market prices during phase II (2008-2012). The terms for phase III (beginning in 2013) 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.

**Internal control system**

RHI has guidelines on the internal control system (ICS), which address the risks of the Group and define preventative measures. The guidelines were established by the Management Board and introduced throughout the Group. The respective competent local management is responsible for implementing and monitoring the internal control system. The risk portfolio is reviewed annually for necessary adjustments.

The implementation of and compliance with the guidelines is audited by the staff unit Group Audit, which reports to the Management Board. The annual revision plan is derived from the risk assessment of all company activities in Group, approved by the Management Board and reported to the audit committee of the Supervisory Board. The results of the audits of the effectiveness of the ICS are reported to the Management Board on a regular basis.

The audit committee of the Supervisory Board receives a report at least once per annum.

Central elements of the ICS are regular audits of compliance with the institutionalised four-eye principle, the segregation of duties and defined control steps in critical processes.

The RHI Group's guidelines pertaining to the ICS follow the basic structure of the internationally recognised standards for internal control systems (COSO - Internal Control and Enterprise Risk Managing Frameworks of the Committee of Sponsoring Organizations of the Treadway Commission).

# Notes in Accordance with § 243a UGB

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

At 31 December 2008, the share capital of RHI AG amounted to € 275,626,514.10 (31.12.2007: € 272,348,969.51) and consisted of 37,927,039 (31.12.2007: 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 2008, 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 with a stake in excess of 5% were known to the company at 31 December 2008: Wilhelm Winterstein, Germany, to whom more than 10% of the voting rights were attributable, and the Raiffeisen Group, Austria, to whom more than 5% of the voting rights were attributable.

## 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.

In accordance with a resolution of the Annual General Meeting of 19 May 2005 the term was extended until 30 April 2010 for an amount of € 50,122,453.68.

**Authorised capital II**

By a resolution adopted at the Annual General Meeting on 29 May 2008, the Management Board was authorised to increase share capital pursuant to § 169 of the Stock Corporation Act, with the approval of the Supervisory Board, by up to € 27,254,875.44 by issuing up to 3,750,353 no-par bearer shares with voting rights until 29 May 2013 in return for a cash contribution or contribution in kind, and to determine the issue price, the issue conditions and further details regarding the implementation of the capital increase in consultation with the Supervisory Board.

**Employee stock ownership plan "4 plus 1"**

With a resolution of the Annual General Meeting of RHI AG on 29 May 2008, 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 10,000 no-par shares, which corresponded to 0.03% 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 16 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 UniCredit Bank Austria AG (formerly: 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."

## Provisions regarding the appointment and removal of members of the Management and Supervisory Boards

The appointment and removal of members of the Management Board are stipulated in § 75 of the Stock Corporation Act (AktG). In addition to that, the articles of association stipulate in § 8 that the Management Board shall consist of two, three, four or five persons. The appointment period of members of the Management Board shall end on the 65th birthday.

The Supervisory Board shall consist of at least three members. An appointment to become a Supervisory Board Member shall last be possible before the 70th birthday.

# Events after the Balance Sheet Date

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

Vienna, 11 March 2009

Management Board:

| | |
|---|---|
| Thomas Fahnemann<br>m.p. | Stefano Colombo<br>m.p. |

| | | |
|---|---|---|
| Giorgio Cappelli<br>m.p. | Manfred Hödl<br>m.p. | Rudolf Payer<br>m.p. |

.

“SUCCESS
IS TO
ALWAYS
HAVE THE
RIGHT SHOES
IN YOUR
LUGGAGE –
THOSE THAT
YOUR PARTNERS,
CUSTOMERS
AND
COLLEAGUES
ARE IN.”

**Name**

Tejinder (TJ) Saran

**Job**

Key Account Representative
Coordination Key Accounts Steel

**Comes from**

Jaffal, Punjab, India

**Has**

not only her current Excel files in her luggage
but also plenty of reading material for relaxation

**Is**

a trained reservist in the Canadian Navy

**Can**

not easily resist chic shoes

**Personal short story**

At the age of only 11 months, TJ Saran left India with her family and grew up in Canada. After her graduation from high school and reservist training in the Canadian Navy she started her professional career as a department administrator in client service and as cost controller before she joined RHI as customer service representative of the steel team for ArcelorMittal – the world's largest steel group – in April 2005. Today, TJ Saran works at the Vienna-based RHI headquarters as a key account coordinator for the steel segment, is responsible for ArcelorMittal, one of RHI's largest customers, and focuses on the areas USA and China.


**1** Laptop **2** Umbrella **3** Mobile phone, pen and USB stick **4** MP3 player **5** High heels **6** Sports shoes **7** Book: "Will" by Christopher Rush **8** Sudoku **9** Financial Times and note book **10** Chewing gum

# RHI Consolidated Financial Statements 2008

# RHI Consolidated Balance Sheet 2008

| in € million | Notes | 31.12.2008 | % | 31.12.2007 | % |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | (1) | 426.1 | 32.2 | 419.9 | 33.9 |
| Goodwill | (2) | 14.7 | 1.1 | 15.3 | 1.2 |
| Other intangible assets | (3) | 43.7 | 3.3 | 36.6 | 2.9 |
| Shares in associates | (4) | 14.1 | 1.1 | 12.4 | 1.0 |
| Other financial assets | (5) | 37.7 | 2.8 | 39.5 | 3.2 |
| Non-current receivables | (6) | 0.7 | 0.1 | 1.1 | 0.1 |
| Deferred tax assets | (7) | 69.4 | 5.2 | 72.6 | 5.9 |
| | | **606.4** | **45.8** | **597.4** | **48.2** |
| **Current assets** | | | | | |
| Inventories | (8) | 380.9 | 28.8 | 311.3 | 25.1 |
| Trade and other current receivables | (9) | 272.7 | 20.6 | 283.8 | 22.9 |
| Current portion of non-current receivables | (6) | 1.0 | 0.1 | 1.3 | 0.1 |
| Income tax receivables | | 8.2 | 0.6 | 8.1 | 0.6 |
| Other financial assets | (10) | 7.8 | 0.6 | 3.4 | 0.3 |
| Cash and cash equivalents | (11) | 46.3 | 3.5 | 35.0 | 2.8 |
| | | **716.9** | **54.2** | **642.9** | **51.8** |
| | | **1,323.3** | **100.0** | **1,240.3** | **100.0** |
| **EQUITY AND LIABILITIES** | | | | | |
| **Equity** | | | | | |
| Share capital | (12) | 275.6 | 20.8 | 272.3 | 22.0 |
| Group reserves | (12) | -113.0 | -8.5 | -193.1 | -15.6 |
| Equity attributable to equity holders of RHI AG | | 162.6 | 12.3 | 79.2 | 6.4 |
| Minority interest | (12) | 19.2 | 1.4 | 16.4 | 1.3 |
| | | **181.8** | **13.7** | **95.6** | **7.7** |
| **Non-current liabilities** | | | | | |
| Non-current subordinated convertible bonds | (14) | 0.0 | 0.0 | 17.2 | 1.4 |
| Non-current financial liabilities | (15) | 302.4 | 22.9 | 349.4 | 28.2 |
| Deferred tax liabilities | (7) | 11.1 | 0.8 | 10.1 | 0.8 |
| Personnel provisions | (16) | 297.7 | 22.5 | 318.1 | 25.7 |
| Other non-current provisions | (17) | 3.2 | 0.2 | 3.0 | 0.2 |
| Other non-current liabilities | (18) | 5.4 | 0.4 | 6.4 | 0.5 |
| | | **619.8** | **46.8** | **704.2** | **56.8** |
| **Current liabilities** | | | | | |
| Current subordinated convertible bonds | (14) | 13.9 | 1.1 | 0.0 | 0.0 |
| Current financial liabilities | (15) | 118.9 | 9.0 | 84.3 | 6.8 |
| Trade and other current payables | (18) | 282.1 | 21.3 | 251.9 | 20.3 |
| Income tax payables | | 35.8 | 2.7 | 37.7 | 3.0 |
| Current provisions | (19) | 71.0 | 5.4 | 66.6 | 5.4 |
| | | **521.7** | **39.5** | **440.5** | **35.5** |
| | | **1,323.3** | **100.0** | **1,240.3** | **100.0** |

# RHI Consolidated Income Statement 2008

| in € million | Notes | 2008 | % | 2007 [1] | % |
|---|---|---|---|---|---|
| **Continuing operations** | | | | | |
| Revenues | (22) | 1,596.7 | 100.0 | 1,467.6 | 100.0 |
| Special direct distribution costs | (23) | -142.4 | -8.9 | -124.6 | -8.5 |
| Cost of sales | (24) | -1,089.1 | -68.2 | -1,004.5 | -68.4 |
| **Gross profit** | | **365.2** | **22.9** | **338.5** | **23.1** |
| Distribution costs | (25) | -92.6 | -5.8 | -82.0 | -5.6 |
| Administrative expenses | (26) | -116.3 | -7.3 | -96.2 | -6.6 |
| Impairment losses | (27) | -17.8 | -1.1 | -0.8 | -0.1 |
| Expenses arising from plant shutdown | (28) | 0.0 | 0.0 | -3.0 | -0.2 |
| Other income | (29) | 19.7 | 1.2 | 9.9 | 0.7 |
| Other expenses | (30) | -9.8 | -0.6 | -0.6 | 0.0 |
| **Operating results** | | **148.4** | **9.3** | **165.8** | **11.3** |
| Financial results | (31) | -37.2 | -2.3 | -39.0 | -2.7 |
| Results from associates | | 2.2 | 0.1 | 1.4 | 0.1 |
| **Profit before income taxes** | | **113.4** | **7.1** | **128.2** | **8.7** |
| Income taxes | (32) | -11.6 | -0.7 | -15.1 | -1.0 |
| **Profit for the year from continuing operations** | | **101.8** | **6.4** | **113.1** | **7.7** |
| | | | | | |
| **Discontinued operations** | | | | | |
| Loss for the year from discontinued operations | (35) | -1.2 | | -2.1 | |
| **Profit for the year** | | **100.6** | | **111.0** | |
| | | | | | |
| Profit attributable to | | | | | |
| equity holders of RHI AG | (12) | 98.1 | 97.5 | 109.4 | 98.6 |
| minority interest | (12) | 2.5 | 2.5 | 1.6 | 1.4 |
| | | 100.6 | 100.0 | 111.0 | 100.0 |

| in € | Notes | 2008 | | 2007 | |
|---|---|---|---|---|---|
| **Continuing operations** | | | | | |
| Basic earnings per share | (41) | 2.64 | | 3.12 | |
| Diluted earnings per share [2] | (41) | 2.51 | | 2.82 | |
| | | | | | |
| **Discontinued operations** | | | | | |
| Basic earnings per share | | -0.03 | | -0.06 | |
| Diluted earnings per share [2] | | -0.03 | | -0.05 | |

1) The comparable data for 2007 were adjusted in accordance with the relevant accounting standards.

2) The calculation of diluted earnings per share is based on the assumption that the convertible bonds will be converted by 31 December 2009.

# Income and Expenses Recognised in Equity by the RHI Group for 2008

| in € million | Notes | 2008 | 2007 |
|---|---|---|---|
| Actuarial gains arising from defined benefit pension plans and termination benefits | | 9.0 | 11.6 |
| Change in currency translation reserves | | -22.2 | -12.1 |
| Fair value change on available for sale financial assets recognised directly in equity | | -1.3 | 0.0 |
| Changes in the value of shares in associates | | 0.0 | 0.2 |
| Other changes | | 0.0 | -0.2 |
| Deferred taxes on changes in value recognised directly in equity | | -2.6 | -4.7 |
| **Income and expenses recognised directly in equity** | | **-17.1** | **-5.2** |
| **Profit** | | **100.6** | **111.0** |
| **Total recognised income and expenses** | (12) | **83.5** | **105.8** |
| | | | |
| Recognised income and expenses attributable to | | | |
| equity holders of RHI AG | | 80.1 | 104.7 |
| minority interest | | 3.4 | 1.1 |
| | | 83.5 | 105.8 |

# RHI Consolidated Cash Flow Statement 2008

| in € million | Notes | 2008 | 2007 [1] |
|---|---|---|---|
| **Continuing operations** | | | |
| **Cash flow from operating activities** | (36) | **123.5** | **155.1** |
| | | | |
| Investments in subsidiaries and other businesses net of cash | | -10.9 | -31.5 |
| Investments in minority interest | | -2.6 | -3.3 |
| Cash outflow from the sale of discontinued operations net of cash | | -0.2 | 0.0 |
| Investments in property, plant and equipment and intangible assets | | -76.7 | -78.7 |
| Cash inflows from the sale of property, plant and equipment and intangible assets | | 6.2 | 1.7 |
| Investments in non-current receivables | | -0.3 | -0.4 |
| Cash inflows from non-current receivables | | 2.5 | 1.7 |
| Investments in financial assets | | -0.8 | -0.4 |
| Cash inflows from the sale of financial assets | | 3.3 | 0.0 |
| Change in associates | | 0.6 | 2.4 |
| Investment subsidies received | | 0.9 | 1.2 |
| Interest received | | 4.2 | 4.4 |
| Dividends received | | 0.6 | 0.5 |
| **Cash flow from investing activities** | (37) | **-73.2** | **-102.4** |
| | | | |
| Capital contribution from minority shareholders | | 0.0 | 1.7 |
| Dividends to minority shareholders | | -0.8 | -2.0 |
| Repayment of non-current borrowings | | -47.1 | -46.7 |
| Proceeds from current borrowings | | 36.4 | 0.0 |
| Repayment of current borrowings | | 0.0 | -5.9 |
| Interest payments | | -23.4 | -29.0 |
| **Cash flow from financing activities** | (38) | **-34.9** | **-81.9** |
| | | | |
| **Cash flow from continuing operations** | | **15.4** | **-29.2** |
| | | | |
| **Discontinued operations** | | | |
| **Cash flow from discontinued operations** | (39) | **-2.2** | **-1.8** |
| | | | |
| **Total cash flow** | | **13.2** | **-31.0** |
| | | | |
| **Change in cash and cash equivalents** | | **13.2** | **-31.0** |
| Cash and cash equivalents at beginning of year | | 35.0 | 66.7 |
| Change in cash and cash equivalents due to currency translation | | -1.9 | -0.7 |
| Cash and cash equivalents at year-end | | 46.3 | 35.0 |
| thereof cash and cash equivalents from continuing operations | | 46.3 | 34.6 |

1) The comparable data for 2007 were adjusted in accordance with the relevant accounting standards.

# RHI Notes to the Consolidated Financial Statements 2008

## 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 remaining activities of the Waterproofing Division, which focus on asphalt surfacing, waterproofing and bituminous pavement as well as the provision of moisture-resistant insulating materials, were sold on 1 September 2008.

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 plan assets as defined in IAS 19 as well as derivative financial instruments and financial assets classified as available for sale (IAS 39), which are all measured at fair value as of the balance sheet date.

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

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

**Release of the consolidated financial statements for 2008**
These consolidated financial statements were released by the Management Board on 11 March 2009.

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 22 April 2009 for examination and approval. The Supervisory Board may approve the consolidated financial statements or delegate this approval to the annual general meeting.

**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 2008:

>> IAS 39 (amended October 2008): Financial Instruments: Recognition and Measurement
>> IFRS 7 (amended October 2008): Financial Instruments: Disclosures
>> IFRIC 11 (2006): IFRS 2 - Group and Treasury Share Transactions
>> IFRIC 14 (2007): IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" concern the option to reclassify certain types of financial instruments from one valuation category to another. These amendments have no effect on the RHI Group.

Furthermore, the initial application of IFRIC 11 "IFRS 2 – Group and Treasury Shares Transactions" and IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" did not have any effect on the RHI Group.

**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 2008 financial year.

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

>> IAS 1 (amended 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 (revised 2007): Borrowing Costs
>> IAS 27 (amended May 2008): Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
>> IAS 32 (amended 2008): Financial Instruments: Presentation - Puttable Financial Instruments and Obligations Arising on Liquidation
>> IFRS 1 (amended May 2008): First-time Adoption of International Financial Reporting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
>> IFRS 2 (amended 2008): Share-based Payment
>> IFRS 8 (2006): Operating Segments
>> Improvements to IFRSs (2008)
>> IFRIC 13 (2007): Customer Loyalty Programmes

The following section explains the major changes that are expected to result from the initial application of these standards and interpretations by the RHI Group:

The amendments to IAS 1 (amended in 2007) "Presentation of Financial Statements" are applicable to financial years that begin on or after 1 January 2009, and are comprised above all of different designations for the balance sheet, income statement and cash flow statement as well as additional disclosures for certain changes in equity (cumulative other comprehensive income) and the obligation to present a statement of financial position for the earliest comparative period affected by a retrospective change in accounting policies. This standard will have an effect on the presentation of the financial statements, but not on the financial position or the results of operations and cash flows of the RHI Group.

The IASB announced changes to the standards IAS 1 "Presentation of Financial Statements" and IAS 32 "Financial Instruments: Presentation" in February 2008 under the title "Puttable Financial Instruments and Obligations Arising on Liquidation". These changes represent a reaction by the IASB to criticism that share capital must be classified as a liability because of the redemption rights held by the shareholders. The revised version permits the treatment of puttable instruments as equity under certain conditions. The mandatory application of these changes beginning with the 2009 financial year will have no material impact on the RHI Group.

With the revision to IAS 23 (revised in 2007) "Borrowing Costs", the IASB eliminated the option for the treatment of borrowing costs that are incurred directly in connection with the acquisition, construction or production of a qualified asset. In the future, these borrowing costs must always be capitalised as part of the acquisition or production cost of the asset. An asset is considered to be qualified when a substantial period of time is required to get the asset ready for its intended use or sale. Borrowing costs for inventories that are regularly produced in large volumes may not be capitalised, even if a substantial period of time is required to prepare the items for sale. IAS 23 is applicable to financial years beginning on or after 1 January 2009. The effects of this revision on the financial position or the results of operations and cash flows of the RHI Group will be related primarily to the capitalisation of financing costs for material investments that were started after 1 January 2009 and have a project term of more than one year.

In accordance with IFRS 8 „Operating Segments", the identification of segments should be based on the regular financial information used by management to assess performance and allocate resources. IFRS 8 is applicable to financial years beginning on or after 1 January 2009. The initial application of IFRS 8 will not have a material impact on the RHI Group.

In May 2008 the IASB issued a collection of miscellaneous amendments to existing standards under the title "Improvements to IFRSs". This standard includes changes to 20 standards in two sections. The first section contains changes that could have an effect on presentation, recognition or measurement. The second segment includes changes in phrasing or editorial changes. If not stated otherwise in the relevant standard, these changes are applicable to financial years beginning on or after 1 January 2009. The application of these revised versions, to the extent they are adopted by the EU in this form, will not have any effect, or any material effect, on the consolidated financial statements of RHI.

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 27 (amended January 2008): Consolidated and Separate Financial Statements
>> IAS 39 (amended July 2008): Financial Instruments: Recognition and Measurement - Eligible Hedged Items
>> IAS 39 (amended November 2008): Reclassification of Financial Assets: Effective Date and Transition
>> IFRS 1 (revised November 2008): First-time Adoption of IFRSs - Changes in Structure
>> IFRS 3 (amended January 2008): Business Combinations
>> IFRS 7 (amended November 2008): Reclassification of Financial Assets: Effective Date and Transition
>> IFRS 7 (amended March 2009): Improving Disclosures about Financial Instruments - Amendments to IFRS 7
>> IFRIC 12 (2006): Service Concession Arrangements
>> IFRIC 15 (2008): Agreements for the Construction of Real Estate
>> IFRIC 16 (2008): Hedges of a Net Investment in a Foreign Operation
>> IFRIC 17 (2008): Distributions of Non-Cash Assets to Owners
>> IFRIC 18 (2009): Transfers of Assets from Customers

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

In accordance with IFRS 3 (amended in 2008), transaction costs that are directly related to a business combination may no longer be considered part of the purchase price for the acquired entity, but must normally be recognised through profit or loss.

In cases where subsequent measurement leads to an adjustment of the acquisition cost to reflect future events that were recognised as a liability on the acquisition date, no changes may be made to the carrying amount of goodwill.

The new version of IFRS 3 provides two options for the accounting treatment of minority interest: minority interest may be recognised together with the applicable share of goodwill or, as in the past, only the fair value of the identifiable assets and liabilities attributable to the minority interest may be recognised.

In the case of business combinations achieved in stages, the differences between the carrying amount and the fair value of the previously held shares must be recognised to profit or loss on the acquisition date. The previously allowed recognition directly to a revaluation reserve in equity is no longer possible.

IFRS 3 (amended in 2008) regulates the accounting treatment of rights granted by the seller to the acquirer for contingent consideration in connection with a liability in the acquired entity, e.g. in connection with tax risks or legal disputes. In the future, this contingent consideration will lead to the recognition of an asset equal to the amount of the related liability. In subsequent periods, the asset must then be valued in a corresponding manner with the related liability.

The amendments to IAS 27 make the application of the economic entity approach mandatory for the accounting of transactions with minority interest. Changes in the percentage of ownership without a loss of control may only be treated as equity transactions. However, when the control over a subsidiary is lost, the consolidated assets and liabilities must be derecognised. Any remaining investment in the former subsidiary must then be recognised at fair value, whereby any resulting differences must be recognised through profit or loss.

Another amendment to IAS 27 regulates the allocation of losses attributable to minority interests. Under the currently applicable provisions of IAS 27, losses that exceed the carrying amount of minority interest are normally allocated to minority interest. In the future, the carrying amount of minority interest can also be negative.

The revised versions of IFRS 3 and IAS 27 must be applied prospectively to reporting periods that begin on or after 1 July 2009. Depending on the type and scope of future transactions, these revised versions will have an impact on the financial position and/or the results of operations and cash flows of the RHI Group.

The initial application of the other standards and interpretations is not expected to have any effect, or any material effect, 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 2008.

**Subsidiaries**

Subsidiaries are all companies in which RHI AG directly or indirectly 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 results on the sale of non-current assets and inventories between Group companies 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 | 31.12.2008 | 31.12.2007 | 2008 | 2007 |
| Pound sterling | GBP | 0.96000 | 0.73460 | 0.78883 | 0.68150 |
| Canadian dollar | CAD | 1.71600 | 1.44400 | 1.53917 | 1.47500 |
| Chilean peso | CLP | 900.40000 | 732.40000 | 763.87500 | 714.39833 |
| Mexican peso | MXN | 19.35000 | 16.07000 | 16.11000 | 14.93333 |
| Chinese renminbi yuan | CNY | 9.60900 | 10.74000 | 10.25403 | 10.40919 |
| South African rand | ZAR | 13.16980 | 10.03000 | 11.86167 | 9.56333 |
| US dollar | USD | 1.39770 | 1.47160 | 1.48092 | 1.36633 |

## 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.

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. Regular maintenance and repair costs are expensed as incurred.

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 after a new assessment of the identifiable assets, liabilities and contingent liabilities.

## 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 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.

Acquired brand rights are not reduced by systematic amortisation because they have an indefinite useful life. However, these assets are tested for impairment on an annual basis as well as when events or a change in circumstances indicate that the asset may be impaired.

Patents are amortised on a straight-line basis over their remaining term, which covers 90 percent of the expected future cash flows. Customer bases identified during the allocation of the purchase price are amortised over a useful life of seven years. 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 and 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 and goodwill 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.

The interest rates used to discount cash flows reflect the specific risks of the individual countries in which the cash-generating units are located. These interest rates range from 8.13 to 11.36 percent. During the prior year, a uniform Group-wide interest rate of 7.65 percent was used for reasons of simplification.

The determination of cash flows is based on a simplified cash flow statement that covers forecast data for a period of five years. This forecast data is based on market evaluations by management.

**G Other financial assets**

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

Available-for-sale financial assets are initially measured at fair value plus any related transaction expenses. Subsequent measurement reflects fair value, whereby temporary impairment and any increases 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. Any necessary reversals of impairment charges to equity instruments are recorded without recognition to profit or loss; for debt instruments, these reversals are recognised to profit or loss. 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.

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

The RHI Group classifies shares in non-consolidated subsidiaries, investments in other companies and 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.

**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 collectability 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 (10 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 reported 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 at 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 full 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 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 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 Other financial assets

Other financial assets comprise financial assets that are classified as “available for sale“ and “held for trading“.

The same valuation methods are used to measure current and non-current available-for-sale financial assets.

In the RHI Group, financial assets held for trading include forward exchange contracts as well as embedded derivative financial instruments in outstanding orders and trade receivables that are denominated in a foreign currency. The underlying transactions for the derivatives are carried at amortised cost.

Derivative financial instruments are valued individually using the applicable forward rate as of the balance sheet date. These forward rates are based on the spot rates, and also include forward premiums and discounts. Unrealised valuation gains or losses are recognised to the income statement under other income or expense. Financial liabilities classified under this valuation category are included under other current liabilities.

### O 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.

### P Convertible bonds

Convertible bonds are viewed as compound 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 will be carried at amortised cost up to the point of redemption or conversion; cost is calculated by applying the effective interest method. The interest expense on the convertible bond was calculated using an internal interest rate of 7.3 percent (rounded).

### Q 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.

**<u>Personnel provisions</u>**

**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 industrial or government 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.

The expected long-term income on investment is determined for each category of assets based on publicly available and internal capital market studies and forecasts.

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.

Legal regulations in Austria require 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 5.5 percent (31.12.2007: 5.25 percent) and an increase of 3.55 percent (31.12.2007: 3.75 percent) in wages/salaries based on the projected unit credit method. Actuarial gains and losses are recognised to profit or loss in the period incurred.

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.

## R Trade and other current payables
These liabilities are initially recognised at fair value, and subsequently measured at amortised cost.

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

## S 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.

## T 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 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.

The 2005 Austrian tax reform introduced an option that allows companies to create corporate groups for taxation purposes. RHI AG, as the head of the group, has created a corporate tax group with seven Austrian subsidiaries of the RHI Group. These companies are contractually obliged to transfer their profit or loss to RHI AG.

### U 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 Waterproofing Division was accounted for in accordance with the provisions of IFRS 5 from 30 June 2008 up to its sale on 1 September 2008. The discontinued Insulating Division was sold on 13 June 2006.

### V Segment reporting

The continued segments comprise Steel and Industrial as well as Raw Materials, Production and other. The divisions that were sold – the Waterproofing and Insulating Divisions – are presented as discontinued operations.

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.

## W 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 financial 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. 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.

There is no particular concentration of default risk because of the large number of business partners, activities in many different branches and geographical diversification. In addition, the RHI Group 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 2008 the RHI Group had unused, immediately available lines of credit totalling € 121.3 million (31.12.2007: € 162.9 million). These facilities were concluded with various 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. Part of the foreign exchange risk resulting from the granting of Group financing in US-dollars was hedged through forward exchange contracts in 2008. As of 31 December 2008 the RHI Group held short-term USD/EUR forward exchange contracts with a nominal volume of USD 50.0 million. The positive market value as of the balance sheet date totalled € 3.7 million.

### 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 emission certificates allocated free of charge are not expected to be sufficient, and RHI will be required to purchase additional emission certificates at market prices during phase II (2008 - 2012). The terms for phase III (beginning in 2013) are still unresolved, and it is therefore not possible to evaluate the related risks at the present time.

The risk of volatile energy and raw material prices is countered by measures that include 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 major derivative financial instruments were concluded as hedges for other market risks during the reporting year.

## X 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 they had used unsuccessfully in their first instance appeals. There were no developments of note in the appeal process during the 2008 financial year, and it is currently unclear 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.

## Y 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 € 53.7 million, while an increase of 10 percent would result in the reversal of impairment charges totalling € 8.9 million.

An increase of 10 percent in the discount rate would result in impairment charges of € 4.8 million to property, plant and equipment and intangible assets. In contrast, a reduction of 10 percent in the assumed discount rate would require the reversal of € 6.5 million in impairment charges that were recognised during 2008.

**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 2008 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 industrial or government bonds of the highest rating, which are denominated in the currency in which the benefits will be paid and whose term reflects the term of the pension obligation.

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

If the interest rate, including future wage/salary increases, varied 10 percent from the estimates made by management, the present value of the pension obligations would be € 14.5 million higher or € 13.0 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 increase by € 3.9 million or decrease by € 4.8 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.

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

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

The consolidation range changed as follows during the reporting year:

| | Full consolidation | Equity method |
|---|---|---|
| **31.12.2007** | **74** | **4** |
| Additions | 1 | 0 |
| Disposals | -2 | -1 |
| **31.12.2008** | **73** | **3** |

The consolidation range changed as follows during the prior year:

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

**Fully consolidated subsidiaries, acquisition of business operations**

**Additions in 2008**

On 16 July 2008 Radex Vertriebsgesellschaft mbH, Leoben, Austria, acquired 51 percent of the shares in Quintermina AG, Chur, Switzerland. The primary business activity of the acquired company covers trading in magnesium products and other minerals as well as related raw materials. For reasons of simplification, 31 July 2008 was selected as the date of initial consolidation.

The fair values of the acquired net assets are shown in the following table:

| in € million | 31.7.2008 |
|---|---|
| Financial assets | 1.4 |
| Inventories | 1.3 |
| Other current assets (excluding cash and cash equivalents) | 1.1 |
| Cash and cash equivalents | 0.3 |
| Non-current liabilities | -2.1 |
| Current liabilities | -1.4 |
| **Net assets** | **0.6** |
| Minority interest | -0.3 |
| **Net assets acquired** | **0.3** |

The difference between the IFRS carrying amounts immediately prior to the business combination and the fair values of the acquired net assets is immaterial.

The cash purchase price paid for this acquisition totalled € 0.6 million. Goodwill resulting from the transaction amounted to € 0.3 million.

Quintermina AG contributed revenues of € 2.3 million to continuing operations during the period from 1 August 2008 to 31 December 2008. Profit after tax for continuing operations includes earnings of approximately 0.7 million for this same period. If the acquisition had taken place at the beginning of the financial year, the contribution to revenues would have equalled € 4.3 million and the Group profit after tax from continuing operations would have equalled € 102.3 million.

On 11 January 2008 a contract was signed with the Cookson Group plc, London, Great Britain, for the acquisition of the assets and liabilities of two plants in Scotland (Bonnybridge) and the USA (Saybrook). These plants are managed by Foseco plc, Tamworth, Great Britain, and produce carbon-bonded ceramic products.

The acquisition was finalised on 16 April 2008, and the assets and liabilities of the companies were taken over by RHI AG, RHI Refractories UK Limited, Clydebank, Great Britain, Veitsch-Radex America Inc., Mokena, USA, and Veitsch-Radex America Inc., Burlington, Canada.

The acquisition costs totalled € 10.6 million, and include € 0.7 million of directly attributable expenses for business and legal consulting.

The following table shows the preliminary values for the acquired assets, liabilities and contingent liabilities, which were determined as of the acquisition date:

| in € million | IFRS carrying amount | Fair value |
|---|---|---|
| Property, plant and equipment | 5.1 | 4.8 |
| Intangible assets | 1.1 | 3.0 |
| Inventories | 3.7 | 3.8 |
| Deferred tax liabilities | 0.0 | -0.5 |
| Non-current provisions | 0.0 | -0.2 |
| Current provisions | 0.0 | -0.1 |
| **Net assets acquired** | **9.9** | **10.8** |

This acquisition resulted in negative goodwill of € 0.2 million, which was recognised in full to profit and loss under other income during the reporting period.

The acquired plants contributed € 14.0 million to Group revenues from continuing operations during the period from 16 April 2008 to 31 December 2008. Profit after tax for continuing operations includes negative earnings of € 1.8 million for this same period. If the acquisition had taken place at the beginning of the financial year, the contribution to revenues would have equalled € 19.9 million and Group profit after tax from continuing operations would have equalled € 101.3 million.

**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%)
RHI India Private Limited, Navi Mumbai, India (15.6.2007, 60%)

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 |
| 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 from continuing operations would have totalled € 113.0 million.

The final purchase price for the assets and liabilities of Monofrax Inc. was determined in April 2008. The adjustment to the purchase price was offset against goodwill and the remaining negative difference was recognised to profit or loss under other income.

**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, through a purchase contract dated 31 July 2007. The purchase price, including transaction costs, equalled € 7.0 million. Of this total, € 3.0 million was due and payable on the acquisition date. A payment of € 2.6 million was made during 2008, and the remainder of the purchase price is due 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.

**Disposals in 2008**
**Discontinued operations: Waterproofing Division**
On 30 June 2008 the Management Board of RHI AG approved the sale of Isolit-Isolier GmbH, Vienna, Austria, which was responsible for the remaining activities of the Insulating Division that was sold during 2000. The active search for a buyer and implementation of the sale plans began immediately after the approval was granted.

On 13 August 2008 Radex Vertriebsgesellschaft mbH, Leoben, Austria, as the sole owner, signed a purchase and takeover agreement with the managing directors of Isolit-Isolier GmbH. The contract was fulfilled as of 1 September 2008. For reasons of simplification, the deconsolidation was recognised as of 31 August 2008.

The net assets of the company on the date of deconsolidation are shown below:

| in € million | 31.8.2008 |
|---|---|
| Property, plant and equipment | 0.7 |
| Inventories | 0.5 |
| Trade and other current receivables | 5.4 |
| Cash and cash equivalents | 0.2 |
| Personnel provisions | -0.4 |
| Trade and other current liabilities | -5.3 |
| **Net assets sold** | **1.1** |

The cash flow of € -0.2 million generated by this sale represents the sale price received in cash less the cash and cash equivalents surrendered as part of the transaction. Receivables of € 2.1 million due from Isolit-Isolier GmbH were settled through the sale.

**Other disposals**
Corrosion Technology Peru, S.A., Lima, Peru, was liquidated and deconsolidated as of 31 October 2008. The liquidation of this company had no material effect on the Group's financial position, the results of its operations and its cash flows.

**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.

**Companies consolidated at equity**
The 50 percent stake in Shandong RHI New Materials Co., Ltd., Zibo City, PR China, which was held by Radex Vertriebsgesellschaft mbH, Leoben, Austria, was transferred to Zibo GT Industrial Cheramics Co., Ltd., Zibo City, PR China, as of 29 August 2008. RHI deconsolidated this company, which was previously included at equity, as of 1 September 2008 for reasons of simplification. The transaction had no material effect on the financial position or the results of its operations of the RHI Group.

**Subsidiaries not included in the consolidation**
Four subsidiaries (2007: four) 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% 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 (46).

# 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.

The assets attributable to the discontinued Waterproofing Division were reclassified to current assets as of 30 June 2008.

**(1) Property, plant and equipment**
Property, plant and equipment developed as follows during 2008:

| 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 31.12.2007 | 331.9 | 31.3 | 671.4 | 209.1 | 41.0 | 1,284.7 |
| Currency translation | -2.1 | 0.0 | -10.0 | 0.4 | 3.0 | -8.7 |
| Change in consolidated companies | 0.0 | 0.0 | 4.5 | 0.3 | 0.0 | 4.8 |
| Additions | 6.9 | 0.3 | 20.3 | 6.4 | 36.3 | 70.2 |
| Retirements and disposals | -3.5 | 0.0 | -16.1 | -9.1 | 0.0 | -28.7 |
| Reclassifications | 1.8 | 0.0 | 7.1 | 11.2 | -22.7 | -2.6 |
| Reclassification of discontinued operations | -0.7 | 0.0 | -0.5 | -0.5 | 0.0 | -1.7 |
| **Cost at 31.12.2008** | **334.3** | **31.6** | **676.7** | **217.8** | **57.6** | **1,318.0** |
| Accumulated depreciation at 31.12.2007 | 193.3 | 22.1 | 490.0 | 159.4 | 0.0 | 864.8 |
| Currency translation | -1.4 | 0.0 | -6.3 | 0.0 | 0.0 | -7.7 |
| Depreciation charge | 7.0 | 0.4 | 25.1 | 10.5 | 0.0 | 43.0 |
| Impairment losses | 4.8 | 0.0 | 3.4 | 0.7 | 8.9 | 17.8 |
| Retirements and disposals | -2.2 | 0.0 | -14.0 | -8.7 | 0.0 | -24.9 |
| Reclassifications | 0.0 | 0.0 | -4.7 | 4.7 | 0.0 | 0.0 |
| Reclassification of discontinued operations | -0.1 | 0.0 | -0.5 | -0.5 | 0.0 | -1.1 |
| **Accumulated depreciation at 31.12.2008** | **201.4** | **22.5** | **493.0** | **166.1** | **8.9** | **891.9** |
| **Carrying amounts at 31.12.2008** | **132.9** | **9.1** | **183.7** | **51.7** | **48.7** | **426.1** |

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** |

Impairment charges of € 17.8 million were recognised in 2008 and are reported on the income statement under impairment losses. In the prior year impairment charges of € 2.3 million were reported under expenses for plant shutdowns.

Assets obtained through finance leases are included under property, plant and equipment, and totalled € 0.2 million in 2008 (31.12.2007: € 0.3 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 for continuing operations includes rental and lease payments for leased property, plant and equipment (operating leases) totalling € 17.0 million (2007: € 15.3 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 € 2.1 million at year-end 2008 (31.12.2007: € 2.2 million). Rental income of € 0.1 million was generated during the reporting period (2007: € 0.2 million) and, as in the prior year, is contrasted by expenses of € 0.1 million.

The marketability of real estate totalling € 20.6 million (31.12.2007: € 20.6 million) is limited by its commitment as collateral for credits.

**(2) Goodwill**
Goodwill developed as follows during the reporting year:

| in € million | 2008 | 2007 |
|---|---|---|
| **Cost/carrying amount at beginning of year** | **15.3** | **14.0** |
| Currency translation | 0.0 | -0.1 |
| Change in consolidated companies | 0.3 | 1.1 |
| Additions | 0.0 | 0.3 |
| Reduction through offset | -0.9 | 0.0 |
| **Cost/carrying amount at year-end** | **14.7** | **15.3** |

Goodwill recognised on business combinations in 2008 was related to the initial consolidation of the shares acquired in Quintermina AG, Chur, Switzerland. The comparable prior year data reflects the initial consolidation of the acquired assets and liabilities of RHI Monofrax, Ltd. and RHI Monofrax PPE LLC, both Wilmington, USA.

The final purchase price for the assets and liabilities of RHI Monofrax, Ltd. and RHI Monofrax PPE LLC was determined in April 2008. The adjustment to the purchase price was offset against the carrying value of goodwill (€ 0.9 million), and the remaining negative goodwill was recognised through profit or loss.

The prior year 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 2008 is comprised of the following: € 0.4 million for Quintermina AG and € 0.4 million (31.12.2007: € 0.4 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 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 during 2008:

| in € million | Internally generated intangible assets | Other intangible assets | Total |
|---|---|---|---|
| Cost at 31.12.2007 | 14.3 | 56.9 | 71.2 |
| Currency translation | -0.4 | 0.6 | 0.2 |
| Change in consolidated companies | 0.0 | 3.0 | 3.0 |
| Additions | 3.7 | 4.5 | 8.2 |
| Retirements and disposals | -0.1 | -1.2 | -1.3 |
| Reclassifications | 0.0 | 2.6 | 2.6 |
| Reclassification of discontinued operations | 0.0 | -0.1 | -0.1 |
| **Cost at 31.12.2008** | **17.5** | **66.3** | **83.8** |
| Accumulated amortisation at 31.12.2007 | 5.2 | 29.4 | 34.6 |
| Currency translation | -0.3 | 0.1 | -0.2 |
| Amortisation charge | 2.0 | 4.9 | 6.9 |
| Retirements and disposals | -0.1 | -1.0 | -1.1 |
| Reclassification of discontinued operations | 0.0 | -0.1 | -0.1 |
| **Accumulated amortisation at 31.12.2008** | **6.8** | **33.3** | **40.1** |
| **Carrying amounts at 31.12.2008** | **10.7** | **33.0** | **43.7** |

Other intangible assets changed as follows during 2007:

| 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** |

Internally generated intangible assets comprise capitalised software and product development costs. The carrying value of intangible assets with an indefinite useful life totalled € 1.8 million. It represents the brand name DELTEK, which was acquired in April 2008 and – based on plans by management to continue the use of this brand and the resulting indeterminate useful life – classified as having an indefinite useful life.

Systematic amortisation as shown on the income statement is related to the cost of sales with € 3.8 million (2007: € 3.3 million), distribution costs with € 0.1 million (2007: € 0.1 million) and administrative expenses with € 3.0 million (2006: € 2.4 million). In the prior year impairment charges of € 0.8 million were reported under impairment losses.

Expenses recognised for research and development in 2008 totalled € 18.2 million (2007: € 18.1 million).

**(4) Shares in associates**

The following table shows the development of the shares held by the Group in three (31.12.2007: four) associates during 2008 and 2007. None of these companies is listed on a stock exchange.

| in € million | 2008 | 2007 |
|---|---|---|
| **Carrying amount at beginning of year** | **12.4** | **13.3** |
| Share in profit (after tax) | 2.2 | 3.0 |
| Impairment losses | 0.0 | -1.6 |
| Dividends | -0.6 | -2.5 |
| Other changes in value (after taxes) | 0.1 | 0.2 |
| **Carrying amount at year-end** | **14.1** | **12.4** |

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

Summarised financial information on these associates (not adjusted to reflect the stake owned by the RHI companies) is as follows: assets € 31.8 million (31.12.2007: € 37.6 million), liabilities € 13.7 million (31.12.2007: € 19.9 million), revenues € 20.7 million (2007: € 22.6 million) and profit after tax € 4.4 million (2007: € 6.0 million).

**(5) Other financial assets**
The financial assets shown on the balance sheet are comprised of the following items:

| in € million | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Investments - available for sale | 6.3 | 5.9 |
| Securities - available for sale | 28.3 | 33.2 |
| Prepayments on financial assets | 3.1 | 0.4 |
| **Other financial assets** | **37.7** | **39.5** |

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 | 2008 | 2007 |
|---|---|---|
| **Accumulated impairment losses at beginning of year** | **5.5** | **3.6** |
| Impairment losses | 1.6 | 1.9 |
| **Accumulated impairment losses at year-end** | **7.1** | **5.5** |

**(6) Non-current receivables and current portion of non-current receivables**
Non-current receivables, including the current portion of non-current receivables, totalled € 1.7 million (31.12.2007: € 2.4 million). No valuation adjustments had been recognised to these items as of 31 December 2008 or 31 December 2007.

As of the balance sheet date, receivables with a total nominal value of € 1.0 million (31.12.2007: € 1.3 million) were assigned.

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

| in € million | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Deferred tax assets | 69.4 | 72.6 |
| Deferred tax liabilities | -11.1 | -10.1 |
| **Net position** | **58.3** | **62.5** |

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

| in € million | 2008 | 2007 |
|---|---|---|
| **Net position at beginning of year** | **62.5** | **58.6** |
| Currency translation | -1.1 | -0.6 |
| Change in consolidated companies | -0.5 | 0.0 |
| Change to income statement | -0.1 | 9.1 |
| Recording without recognition through profit or loss | -2.6 | -4.7 |
| Effect of changes in tax rates | 0.1 | 0.1 |
| **Net position at year-end** | **58.3** | **62.5** |

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 |
|---|---|---|---|---|---|
| **31.12.2007** | **38.4** | **7.8** | **41.1** | **10.5** | **97.8** |
| Currency translation | -0.3 | -0.1 | -0.7 | -0.4 | -1.5 |
| Change to income statement | -2.4 | 1.8 | 0.6 | -0.4 | -0.4 |
| Recording without recognition through profit or loss | -2.6 | 0.0 | 0.0 | 0.0 | -2.6 |
| Effect of changes in tax rates | -0.1 | 0.0 | 0.0 | 0.0 | -0.1 |
| **31.12.2008** | **33.0** | **9.5** | **41.0** | **9.7** | **93.2** |

| 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** |

**Deferred tax liabilities**

| in € million | Accelerated tax depreciation | Other | Total |
|---|---|---|---|
| **31.12.2007** | **28.9** | **6.4** | **35.3** |
| Currency translation | -0.5 | 0.1 | -0.4 |
| Change in consolidated companies | 0.5 | 0.0 | 0.5 |
| Change to income statement | -3.0 | 2.7 | -0.3 |
| Effect of changes in tax rates | -0.4 | 0.2 | -0.2 |
| **31.12.2008** | **25.5** | **9.4** | **34.9** |

| 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** |

Tax loss carryforwards in the RHI Group totalled € 679.4 million as of 31 December 2008 (31.12.2007: € 690.6 million). Deferred taxes were not recorded on € 506.3 million of this amount (31.12.2007: € 521.6 million). The main portion of the unrecognised tax losses can be carried forward indefinitely. Of the tax losses whose use is limited in time, € 3.0 million expire in 2010, € 2.0 million in 2011 and € 12.7 million in 2014.

Deferred tax assets were not recognised on temporary differences of € 6.9 million (31.12.2007: € 5.2 million).

Taxable temporary differences of € 20.5 million (31.12.2007: € 25.0 million) and deductible temporary differences of € 91.8 million (31.12.2007: € 54.2 million) were not recognised on shares in subsidiaries because corresponding distributions of profit or the sale of the investments are not expected in the foreseeable future.

The temporary differences related to associates are immaterial.

The current portion of the net deferred tax position equals approximately € 1.3 million (31.12.2007: € 0.2 million).

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

| in € million | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Raw materials and supplies | 156.3 | 115.2 |
| Unfinished products | 59.4 | 48.4 |
| Finished products and goods | 158.7 | 141.2 |
| Prepayments made | 6.5 | 6.5 |
| **Inventories** | **380.9** | **311.3** |

Inventories recognised by the RHI Group amounted to € 380.9 million as of 31 December 2008 (31.12.2007: € 311.3 million). Of this total, € 11.9 million (31.12.2007: € 3.3 million) were carried at net realisable value. Impairment charges of € 8.3 million were recognised to inventories during the reporting year (2007: € 5.1 million). Reversals of impairment charges that were recognised to profit or loss in connection with sales were immaterial in 2008 (2007: € 0.7 million).

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

| in € million | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Trade receivables | 217.5 | 228.3 |
| Receivables from construction contracts | 4.1 | 7.8 |
| Receivables from associates | 0.7 | 0.9 |
| Other current receivables | 50.4 | 46.8 |
| **Trade and other receivables** | **272.7** | **283.8** |

Other current receivables comprise the following:

| in € million | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Other taxes | 27.7 | 27.0 |
| Receivables employees | 0.9 | 1.2 |
| Prepaid expenses for mining sites | 5.3 | 3.7 |
| Other prepaid expenses | 1.9 | 1.6 |
| Other | 14.6 | 13.3 |
| **Other current receivables** | **50.4** | **46.8** |

RHI AG has sold trade receivables to an Austrian financial institution at an amount equal to the coverage provided by credit insurance. The balance sold equalled € 71.5 million as of 31 December 2008 (31.12.2007: € 67.5 million). 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 2008 and the previous year:

| in € million | 2008 | 2007 |
|---|---|---|
| **Accumulated impairment losses at beginning of year** | **13.7** | **12.8** |
| Currency translation | -0.4 | -0.4 |
| Change in consolidated companies | 0.0 | 0.4 |
| Addition | 6.4 | 3.7 |
| Use | -3.0 | -1.0 |
| Reversal | -1.4 | -1.8 |
| Reclassifications | 0.1 | 0.0 |
| Reclassification of discontinued operations | -0.5 | 0.0 |
| **Accumulated impairment losses at year-end** | **14.9** | **13.7** |

A provision of € 2.0 million was recognised in the prior year to reflect the risk arising from receivables due from an associate; this provision was used in 2008.

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 | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Segment Steel | 112.7 | 142.8 |
| Segment Industrial | 99.1 | 78.6 |
| Segment Raw Materials, Production, other | 9.8 | 14.7 |
| Receivables from trade receivables and construction contracts | 221.6 | 236.1 |
| Credit insurance and bank guarantees | -158.5 | -158.2 |
| **Net credit exposure** | **63.1** | **77.9** |

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

| in € million | 31.12.2008 | 31.12.2007 |
|---|---|---|
| US-dollar | 53.5 | 54.4 |
| Pound sterling | 1.3 | 3.8 |
| Other currencies | 2.4 | 1.7 |
| Other functional currencies | 164.4 | 176.2 |
| **Receivables from trade receivables and construction contracts** | **221.6** | **236.1** |

The classification of receivables by term is as follows:

| in € million | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Neither impaired nor past due at balance sheet date | 179.8 | 185.3 |
| Not impaired at balance sheet date and past due in the following time frames | | |
| Less than 30 days | 22.5 | 32.4 |
| Between 30 and 59 days | 12.5 | 7.7 |
| Between 60 and 89 days | 4.6 | 2.5 |
| More than 90 days | 2.2 | 8.2 |
| **Receivables from trade receivables and construction contracts** | **221.6** | **236.1** |

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 € 41.8 million that were overdue as of the balance sheet date (31.12.2007: € 50.8 million) because the risk of default was covered by credit insurance as well as guarantees and letters of credit.

**(10) Other financial assets**
This balance sheet position comprises the following:

| in € million | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Investments - available for sale | 1.6 | 2.9 |
| Financial assets - held for trading | 6.2 | 0.5 |
| **Other financial assets** | **7.8** | **3.4** |

The positive fair value of forward exchange contracts that are included under financial assets held for trading totals € 3.7 million (31.12.2007: € 0.0 million).

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

| in € million | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Cash on hand | 0.1 | 0.1 |
| Cheques | 0.1 | 0.6 |
| Cash at banks | 46.1 | 34.3 |
| **Cash and cash equivalents** | **46.3** | **35.0** |

Foreign exchange regulations in various countries restrict the use of cash and cash equivalents totalling € 2.5 million (31.12.2007: € 1.8 million).

## Equity and Liabilities

**(12) Equity**

The individual components of equity and their development during 2008 and 2007 are shown in the following tables:

| in € million | Share capital | Group reserves | **Equity attributable to equity holders of RHI AG** | **Minority interest** | **Total equity** |
|---|---|---|---|---|---|
| **31.12.2007** | 272.3 | -193.1 | **79.2** | **16.4** | **95.6** |
| Income and expenses recognised directly in equity | - | -18.0 | **-18.0** | **0.9** | **-17.1** |
| Profit | - | 98.1 | **98.1** | **2.5** | **100.6** |
| **Total recognised income and expenses** | - | 80.1 | **80.1** | **3.4** | **83.5** |
| Dividends | - | - | **0.0** | **-0.8** | **-0.8** |
| Capital increase | 3.3 | - | **3.3** | **-** | **3.3** |
| Change in minority interest | - | - | **0.0** | **0.2** | **0.2** |
| **31.12.2008** | 275.6 | -113.0 | **162.6** | **19.2** | **181.8** |

| 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** |
| Dividends | - | - | **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** |

The share capital of RHI AG totalled € 275,626,514.10 (31.12.2007: € 272,348,969.51) and is comprised of 37,927,039 (31.12.2007: 37,476,039) 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 (conditional capital) through the issue of up to 9,949,500 zero par value bearer shares with voting rights. This conditional capital increase was intended to service the conversion rights held by the owners of tranche A of the convertible bond, who are also the holders of the subscription rights, to the extent these bondholders exercise their right to the subscription of shares. 1 January 2007 was defined as the first possible date for exercise of the conversion right.

In accordance with the authorisation for the exercise of conversion rights as defined in § 5 (2) of the articles of association, the holders of 25 tranche A convertible bonds filed statements of conversion in 2008. This led to the issue of 137,500 shares of bearer stock by the Management Board.

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

| | Number of convertible bonds | Number of shares | € |
|---|---|---|---|
| **31.12.2007** | **343** | **1,886,500** | **13,709,735.98** |
| Conversion in first quarter | -5 | -27,500 | -199,850.29 |
| Conversion in fourth quarter | -20 | -110,000 | -799,401.18 |
| **31.12.2008** | **318** | **1,749,000** | **12,710,484.51** |

| | Number of convertible bonds | Number of shares | € |
|---|---|---|---|
| **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 I**
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 capital increase will be executed as a contribution in kind, i.e. in exchange for the claims of convertible bond holders.

A resolution passed by the annual general meeting on 19 May 2005 extended the term of this authorised capital I to cover the issue of up to € 50,122,453.68 on or before 30 April 2010.

Following a resolution of the Management Board on 15 September 2008 and the approval of the Supervisory Board on 18 September 2008, 57 individual bond certificates from tranche B were converted into 313,500 shares at a price of € 7.27 (rounded) based on the 15 February 2002 authorisation to increase share capital.

Unused authorised capital I:

| | Number of convertible bonds | Number of shares | € |
|---|---|---|---|
| **31.12.2007** | **83** | **456,500** | **3,317,536.22** |
| Conversion in September | -57 | -313,500 | -2,278,293.12 |
| **31.12.2008** | **26** | **143,000** | **1,039,243.10** |

| | Number of convertible bonds | Number of shares | € |
|---|---|---|---|
| **31.12.2006** | **125** | **687,500** | **4,996,278.52** |
| Conversion in March | -33 | -181,500 | -1,319,011.81 |
| Conversion in June | -2 | -11,000 | -79,940.11 |
| Conversion in September | -3 | -16,500 | -119,910.16 |
| Conversion in December | -4 | -22,000 | -159,880.22 |
| **31.12.2007** | **83** | **456,500** | **3,317,536.22** |

**Authorised capital II**

The annual general meeting on 29 May 2008 authorised the Management Board, in accordance with § 169 of the Austrian Stock Corporation Act and with the consent of the Supervisory Board, to increase share capital on or before 29 May 2013 in exchange for cash or contributions in kind by up to € 27,254,875.44 through the issue of up to 3,750,353 shares of bearer stock with voting rights.

There was no increase in share capital from authorised capital II during 2008.

**Group reserves**

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

| in € million | Additional paid-in capital | Fair value reserves | Currency translation reserves | Accumulated results | Total |
|---|---|---|---|---|---|
| **31.12.2007** | **38.3** | **4.4** | **-56.5** | **-179.3** | **-193.1** |
| Actuarial gains arising from defined benefit pension plans and termination benefits | - | - | - | 8.7 | 8.7 |
| Currency translation adjustments | - | - | -22.9 | - | -22.9 |
| Fair value change on available for sale financial assets | - | -1.3 | - | - | -1.3 |
| Deferred taxes on changes in value recognised directly in equity | - | - | - | -2.5 | -2.5 |
| **Income and expenses recognised directly in equity** | **-** | **-1.3** | **-22.9** | **6.2** | **-18.0** |
| **Profit** | **-** | **-** | **-** | **98.1** | **98.1** |
| **Total recognised income and expenses** | **-** | **-1.3** | **-22.9** | **104.3** | **80.1** |
| **31.12.2008** | **38.3** | **3.1** | **-79.4** | **-75.0** | **-113.0** |

The development of the Group's reserves during 2007 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** |

Additional paid-in capital comprises premiums on the issue of shares and convertible bonds 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 2008 (31.12.2007: € 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.

Currency translation reserves include the accumulated currency translation differences arising from investments in foreign subsidiaries.

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 offsets are not reversed from equity 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.

**Minority interest**

The minority interest shown as of 31 December 2008 is comprised primarily of the non-controlling interests in the equity of the following companies: Didier-Werke AG Group, Wiesbaden, Germany, RHI Refractories Liaoning Co., Ltd., Bayuquan, PR China, RHI Clasil Limited, Hyderabad, India, and Liaoning RHI Jinding Magnesia Co., Ltd., Dashiqiao City, PR China.

**(13) 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 including minority interest as shown on the balance sheet and the subordinated liability from the convertible bonds. The underlying assumption is that all convertible bonds certificates will be converted by 31 December 2009 at the latest.

| in € million | 31.12.2008 | 31.12.2007 | Change |
|---|---|---|---|
| Equity as shown on the consolidated balance sheet | 181.8 | 95.6 | 86.2 |
| Subordinated convertible bonds | 13.9 | 17.2 | -3.3 |
| **Operating equity** | **195.7** | **112.8** | **82.9** |

Operating equity rose by € 82.9 million to € 195.7 million in 2008. This development was supported above all by an increase in accumulated results. Based on a balance sheet total of € 1,323.3 million (31.12.2007: € 1,240.3 million), the operating equity ratio equalled 14.8 percent as of 31 December 2008 (31.12.2007: 9.1 percent).

Capital is analysed in relation to 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 fell from 353.5 to 191.6 percent in 2008.

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.

**(14) Subordinated convertible bonds**

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 2008, 318 individual convertible bond certificates (31.12.2007: 343 individual convertible bond certificates) from tranche A and 26 individual convertible bond certificates (31.12.2007: 83 individual convertible bond certificates) from tranche B had been issued. This represents a total of 344 individual convertible bond certificates that had been issued as of the balance sheet date (31.12.2007: 426 individual convertible bond certificates).

The following table shows the development of the bond in 2008:

| in € million | Units | Nominal | Premium | Total |
|---|---|---|---|---|
| **31.12.2007** | **426** | **17.1** | **0.1** | **17.2** |
| Conversion | -82 | -3.3 | 0.0 | -3.3 |
| **31.12.2008** | **344** | **13.8** | **0.1** | **13.9** |

The development of the bond in 2007 is shown below:

| in € million | Units | Nominal | (Disount)/ 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** |

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

| in € million | 2008 | 2007 |
|---|---|---|
| **Balance at beginning of year** | **1.0** | **5.4** |
| Interest expense | 0.8 | 1.2 |
| Interest paid | -1.0 | -5.6 |
| **Balance at year-end** | **0.8** | **1.0** |

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

| in € million | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Liabilities to financial institutions | 294.8 | 343.3 |
| Other loans | 7.6 | 6.1 |
| **Non-current financial liabilities** | **302.4** | **349.4** |
| Liabilities to financial institutions | 117.0 | 83.1 |
| Bank bills | 0.1 | 0.1 |
| Other loans | 1.8 | 1.1 |
| **Current financial liabilities** | **118.9** | **84.3** |
| **Financial liabilities** | **421.3** | **433.7** |

Non-current liabilities to financial institutions, which have a remaining term of more than five years, total € 0.1 million (31.12.2007: € 58.1 million).

Liabilities to financial institutions also comprise export financing (including financing for the acquisition of companies) totalling € 297.6 million (31.12.2007: € 328.9 million).

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

**31.12.2008**

| Interest terms fixed until | Weighted average interest rate | Currency | Carrying amount (in € million) |
|---|---|---|---|
| 2009 | Variable interest rate + margin | EUR | 6.0 |
| | EURIBOR + margin | EUR | 72.5 |
| | LIBOR + margin | CAD | 17.6 |
| | LIBOR + margin | USD | 9.7 |
| | 2.95 % + margin | EUR | 0.7 |
| | 1.52 % + margin | EUR | 2.0 |
| | 4.25 % | EUR | 0.1 |
| | Interbank rate + margin | Various | 1.7 |
| 2010 | 1.90 % + margin | EUR | 33.8 |
| | 1.51 % + margin | EUR | 2.9 |
| 2011 | 1.50 % + margin | EUR | 3.5 |
| 2012 | 2.50 % + margin | EUR | 25.1 |
| 2013 | 2.54 % + margin | EUR | 232.7 |
| | 1.33 % + margin | EUR | 3.5 |
| | | | **411.8** |

**31.12.2007**

| Interest terms fixed until | Weighted average interest rate | Currency | Carrrying amount (in € million) |
|---|---|---|---|
| 2008 | Variable interest rate + margin | EUR | 23.4 |
| | EURIBOR + margin | EUR | 79.8 |
| | LIBOR + margin | USD | 1.2 |
| | 2.95 % + margin | EUR | 2.0 |
| 2009 | 4.25 % | EUR | 0.1 |
| | 1.51 % + margin | EUR | 3.3 |
| 2010 | 1.90 % + margin | EUR | 33.8 |
| | 1.37 % + margin | EUR | 3.5 |
| 2011 | 1.39 % + margin | EUR | 4.0 |
| 2012 | 2.50 % + margin | EUR | 11.1 |
| 2013 | 2.54 % + margin | EUR | 260.7 |
| | 1.24 % + margin | EUR | 3.5 |
| | | | **426.4** |

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

Of the total financial liabilities, € 285.9 million (31.12.2007: € 343.0 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; 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; as well as the assignment of receivables.

**(16) Personnel provisions**

Personnel provisions include the following provisions:

| in € million | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Pensions | 224.6 | 241.7 |
| Termination benefits | 49.9 | 52.8 |
| Other personnel provisions | 23.2 | 23.6 |
| **Personnel provisions** | **297.7** | **318.1** |

**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:

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Interest rate | 4.0 % - 8.75 % | 4.0 % - 8.25 % |
| Expected yield on plan assets | 3.37 % - 8.75 % | 2.44 % - 8.25 % |
| Salary increase | 2.0 % - 5.0 % | 2.0 % - 5.0 % |
| Pension increase | 2.0 % - 4.34 % | 2.0 % - 4.34 % |
| Discounts for employee turnover | 0 - 5.4 % | 0 - 6.0 % |
| Retirement age | 55 - 65 years | 55 - 65 years |
| Mortality tables | | |
| Austria | AVÖ-P 2008 | AVÖ-P 1999, Ang |
| Germany | Heubeck 2005 G | Heubeck 2005 G |
| United Kingdom | PA92mc+2 | PA92(base)-3/-1 |

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 | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Present value of unfunded pension obligations | 208.9 | 220.5 |
| Present value of wholly or partly funded pension obligations | 77.0 | 88.5 |
| Fair value of plan assets | -61.3 | -67.3 |
| **Provisions for pensions** | **224.6** | **241.7** |

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

| in € million | 2008 | 2007 |
|---|---|---|
| **Present value of pension obligations at beginning of year** | **309.0** | **323.2** |
| Currency translation | -6.1 | -5.3 |
| Change in consolidated companies | 0.0 | 14.8 |
| Current service cost | 2.2 | 2.6 |
| Past service cost | 0.3 | 0.0 |
| Interest cost | 16.0 | 14.3 |
| Actuarial gains | -11.7 | -15.5 |
| Direct pension payments | -23.8 | -25.1 |
| **Present value of pension obligations at year-end** | **285.9** | **309.0** |

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

| in € million | 2008 | 2007 |
|---|---|---|
| **Fair value of plan assets at beginning of year** | **67.3** | **63.3** |
| Currency translation | -5.1 | -3.7 |
| Change in consolidated companies | 0.0 | 7.6 |
| Expected return on plan assets | 2.7 | 2.6 |
| Actuarial gains | -3.2 | -0.1 |
| Direct pension payments | -5.6 | -7.4 |
| Contributions to/from external funds | 5.2 | 5.0 |
| **Fair value of plan assets at year-end** | **61.3** | **67.3** |

As of the balance sheet date, the plan assets were comprised of 56 percent (31.12.2007: 50 percent) insurance, 5 percent (31.12.2007: 7 percent) of stocks, 38 percent (31.12.2007: 43 percent) of fixed-interest securities and 1 percent (31.12.2007: 0 percent) of other assets.

The actual loss on the external fund assets equalled € 0.5 million (2007: income of € 2.5 million).

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

| in € million | 2008 | 2007 |
|---|---|---|
| **Provisions for pensions at beginning of year** | **241.7** | **259.9** |
| Currency translation | -1.0 | -1.6 |
| Change in consolidated companies | 0.0 | 7.2 |
| Pension cost | 15.8 | 14.3 |
| Actuarial gains | -8.5 | -15.4 |
| Direct pension payments | -18.2 | -17.7 |
| Contributions to/from external funds | -5.2 | -5.0 |
| **Provisions for pensions at year-end** | **224.6** | **241.7** |

Payments into the plan are expected to total € 23.3 million in 2009. 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 | 2008 | 2007 |
|---|---|---|
| Current service cost | 2.2 | 2.6 |
| Past service cost | 0.3 | 0.0 |
| Interest cost | 16.0 | 14.3 |
| Expected return on plan assets | -2.7 | -2.6 |
| **Pension cost** | **15.8** | **14.3** |

With the exception of the interest portion of the addition to the provision and the expected income on external plan assets, which are included under financial results, the individual components of pension expense are included under personnel expenses. In the prior year, the expected income on plan assets was included under operating results.

The following table shows the development of the present value of pension obligations, plan assets and financing status as well as actuarial gains and losses recognised directly in equity:

| in € million | 31.12.2008 | 31.12.2007 | 31.12.2006 | 31.12.2005 | 31.12.2004 |
|---|---|---|---|---|---|
| Present value of pension obligations | 285.9 | 309.0 | 323.2 | 317.3 | 291.4 |
| Fair value of plan assets | -61.3 | -67.3 | -63.3 | -57.8 | -51.9 |
| **Deficit** | **224.6** | **241.7** | **259.9** | **259.5** | **239.5** |

| in € million | 2008 | 2007 |
|---|---|---|
| **Actuarial losses at beginning of year** | **32.4** | **48.0** |
| Gains of the year | | |
| Subsidiaries | -8.5 | -15.4 |
| Associates | 0.0 | -0.2 |
| **Actuarial losses at year-end** | **23.9** | **32.4** |

The experience adjustments expressed as a percentage of the present value of pension obligations and plan assets are as follows:

| in percent | 31.12.2008 | 31.12.2007 | 31.12.2006 | 31.12.2005 |
|---|---|---|---|---|
| (Gains)/losses as a percent of the present value of the obligation | -0.8 | 2.9 | 1.7 | 2.4 |
| Losses/(gains) as a percent of plan assets | 5.2 | 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:

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Interest rate | 5.5 % - 8.75 % | 5.25 % - 8.5 % |
| Salary increase | 3.0 % - 7.1 % | 3.0 % - 6.25 % |
| Discounts for employee turnover | 0 - 3.0 % | 0 - 3.0 % |
| Retirement age | 55 - 65 years | 55 - 65 years |
| Mortality tables / Austria | AVÖ-P 2008 | 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 | 2008 | 2007 |
|---|---|---|
| **Present value of termination benefit obligations at beginning of year** | **52.8** | **48.9** |
| Currency translation | -0.4 | -0.1 |
| Current service cost | 2.1 | 2.1 |
| Interest cost | 2.8 | 2.1 |
| Actuarial (gains)/losses | -0.5 | 3.8 |
| Termination benefit payments | -6.5 | -3.8 |
| Gains on curtailments | 0.0 | -0.2 |
| Reclassification of discontinued operations | -0.4 | 0.0 |
| **Present value of termination benefit obligations at year-end** | **49.9** | **52.8** |

Payments for termination benefits are expected to total € 2.7 million in 2009.

The termination benefit expense included on the income statements for 2008 and 2007 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 | 2008 | 2007 |
|---|---|---|
| Current service cost | 2.1 | 2.1 |
| Interest cost | 2.8 | 2.1 |
| Gains on curtailments | 0.0 | -0.2 |
| **Termination benefit cost** | **4.9** | **4.0** |

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

| in € million | 31.12.2008 | 31.12.2007 | 31.12.2006 | 31.12.2005 | 31.12.2004 |
|---|---|---|---|---|---|
| Present value of termination benefit obligations | 49.9 | 52.8 | 48.9 | 46.8 | 51.8 |

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 | 2008 | 2007 |
|---|---|---|
| **Actuarial losses at beginning of year** | **12.6** | **8.9** |
| (Gains)/losses of the year | | |
| Subsidiaries | -0.5 | 3.8 |
| Associates | 0.0 | -0.1 |
| **Actuarial losses at year-end** | **12.1** | **12.6** |

The following table shows the actuarial experience adjustments as a precentage of the present value of obligations as of the balance sheet date:

| in percent | 31.12.2008 | 31.12.2007 | 31.12.2006 | 31.12.2005 |
|---|---|---|---|---|
| Losses/(gains) as a percent of the present value of the obligation | 1.8 | 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 |
|---|---|---|---|---|
| **31.12.2007** | **18.4** | **0.0** | **5.2** | **23.6** |
| Use | -0.8 | 0.0 | -1.4 | -2.2 |
| Reversal | -2.3 | 0.0 | -0.1 | -2.4 |
| Addition | 1.7 | 0.0 | 2.1 | 3.8 |
| Reclassifications | 0.0 | 0.4 | 0.0 | 0.4 |
| **31.12.2008** | **17.0** | **0.4** | **5.8** | **23.2** |

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

| in € million | Other non-current provisions |
|---|---|
| **31.12.2007** | **3.0** |
| Change in consolidated companies | 0.2 |
| **31.12.2008** | **3.2** |

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.

**(18) Trade and other current payables**
Other non-current liabilities of € 5.4 million (31.12.2007: € 6.4 million) include subsidies of € 5.0 million (31.12.2007: € 4.5 million) granted by third parties, which are designed above all to support capital investments. The current portion of recognised subsidies equals € 0.3 million (31.12.2007: € 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 | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Trade payables | 155.7 | 144.4 |
| Prepayments received on orders | 20.6 | 14.5 |
| Accounts payable to associates | 1.0 | 1.4 |
| Other current payables | 104.8 | 91.6 |
| **Trade and other current payables** | **282.1** | **251.9** |

Other current payables comprise the following items:

| in € million | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Other taxes | 12.4 | 13.1 |
| Liabilities employees and board members | 47.0 | 45.1 |
| Interest liabilities on convertible bonds | 0.8 | 1.0 |
| Financial liabilities - held for trading | 0.0 | 0.4 |
| Other | 44.6 | 32.0 |
| **Other current payables** | **104.8** | **91.6** |

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

**(19) 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 | Other | Total |
|---|---|---|---|---|---|---|---|
| **31.12.2007** | **6.2** | **20.7** | **19.3** | **20.2** | **0.2** | **0.0** | **66.6** |
| Change in consolidated companies | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 |
| Use | -0.2 | -0.6 | -0.6 | 0.0 | 0.0 | -0.1 | -1.5 |
| Reversal | -0.5 | -2.7 | -0.5 | 0.0 | 0.0 | 0.0 | -3.7 |
| Addition | 2.2 | 4.9 | 1.0 | 0.8 | 0.0 | 1.0 | 9.9 |
| Reclassifications | 0.0 | -0.4 | 0.0 | 0.0 | 0.0 | 0.0 | -0.4 |
| **31.12.2008** | **7.7** | **21.9** | **19.2** | **21.0** | **0.2** | **1.0** | **71.0** |

**Demolition and disposal costs, environmental damages**
The current provisions for demolition and disposal costs as included on the balance sheet total € 6.4 million (31.12.2007: € 4.9 million). Based on contractual or legal obligations, the RHI Group also expects claims of € 1.3 million (2007: € 1.3 million).

**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 and 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.

**Other**
This position comprises a number of provisions whose individual amounts are immaterial, in cases where assignment to one of the above-mentioned categories of provisions is not possible.

## (20) Contingent liabilities
The components of contingent liabilities are shown below:

| in € million | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Liabilities from sureties | 4.3 | 4.1 |
| Liabilities from guarantees | 21.7 | 19.9 |
| Other | 0.2 | 0.1 |
| **Contingent liabilities** | **26.2** | **24.1** |

The contingent liabilities reported as of 31 December 2008 include contingent liabilities of € 3.4 million for the discontinued Waterproofing Division. In accordance with IFRS 5, the prior year data were not adjusted.

## (21) Other financial obligations
Other financial obligations consist of the following items:

| | Total | Remaining term | | |
|---|---|---|---|---|
| in € million | 31.12.2008 | up to 1 year | 2 to 5 years | over 5 years |
| Obligations from rental and leasing contracts | 35.1 | 9.5 | 17.5 | 8.1 |
| Capital commitments | 7.8 | 7.8 | 0.0 | 0.0 |
| Miscellaneous financial obligations | 24.7 | 5.2 | 19.5 | 0.0 |
| **Other financial obligations** | **67.6** | **22.5** | **37.0** | **8.1** |

| | 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** |

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 and motor vehicles.

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

All disclosures on the income statements are related to continuing operations, unless indicated otherwise.

**(22) Revenues**
Revenues are classified as follows:

| in € million | 2008 | 2007 |
|---|---|---|
| Revenues (not including construction contracts) | 1,547.3 | 1,419.1 |
| Revenues from construction contracts | 49.4 | 48.5 |
| **Revenues** | **1,596.7** | **1,467.6** |

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

| in € million | 2008 | 2007 |
|---|---|---|
| Freights | 92.7 | 79.0 |
| Licences | 3.1 | 3.2 |
| Commissions | 36.5 | 35.0 |
| Other | 10.1 | 7.4 |
| **Special direct distribution costs** | **142.4** | **124.6** |

**(24) 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, the amortisation of intangible assets and impairment charges to inventories.

**(25) Distribution costs**
This position includes personnel expenses for the distribution staff as well as depreciation and other operating expenses from the distribution services and units.

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

**(27) Impairment losses**
In order to improve comparability, impairment charges recognised to property, plant and equipment and intangible assets are shown separately from ongoing expenses. The prior year data were adjusted accordingly.

**(28) 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 were 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 total € 0.3 million (31.12.2007: € 0.5 million).

**(29) Other income**
Other income includes:

| in € million | 2008 | 2007 |
|---|---|---|
| Gains from the disposal of property, plant and equipment and intangible assets | 2.8 | 2.7 |
| Foreign exchange gains | 2.9 | 0.0 |
| Gain from the recognition of negative goodwill | 1.1 | 0.0 |
| Gains from the measurement of derivative financial instruments | 6.6 | 0.1 |
| Miscellaneous income | 6.3 | 7.1 |
| **Other income** | **19.7** | **9.9** |

Foreign exchange gains include the net amount of gains and losses arising from changes in foreign exchange rates between the recognition date (average monthly exchange rate) and the payment date (spot rate) as well as foreign exchange effects arising from measurement at the exchange rate on the balance sheet date. If the net amount is negative, these foreign exchange losses are shown under other expenses.

**(30) Other expenses**
Other expenses include the following:

| in € million | 2008 | 2007 |
|---|---|---|
| Losses from the disposal of property, plant and equipment and intangible assets | 1.1 | 1.1 |
| Foreign exchange losses | 0.0 | 3.3 |
| Miscellaneous expenses | 9.4 | 4.8 |
| Income from the reversal of provisions | -0.7 | -8.6 |
| **Other expenses** | **9.8** | **0.6** |

Foreign exchange losses include the net amount of gains and losses arising from changes in foreign exchange rates between the recognition date (average monthly exchange rate) and the payment date (spot rate) as well as foreign exchange effects arising from measurement at the exchange rate on the balance sheet date. If the net amount is positive, these foreign exchange gains are shown under other income.

**(31) Financial results**
Financial results include interest results as well as other financial results.

| in € million | 2008 | 2007 |
|---|---|---|
| Interest results | -19.0 | -20.4 |
| Other financial results | -18.2 | -18.6 |
| **Financial results** | **-37.2** | **-39.0** |

In order to improve transparency, the interest portion of the addition to the provisions for pensions, termination benefits, service anniversary bonuses and similar obligations are reported under other financial results beginning in 2008. The prior year data were adjusted accordingly.

Interest results are classified as follows:

| in € million | 2008 | 2007 |
|---|---|---|
| Gains from securities and non-current receivables | 1.8 | 2.2 |
| Other interest and similar income | 2.4 | 2.2 |
| Interest and similar expenses | -23.2 | -24.8 |
| **Interest results** | **-19.0** | **-20.4** |

The components of other financial results are shown in the following table:

| in € million | 2008 | 2007 |
|---|---|---|
| Income from investments | 0.5 | 0.4 |
| Impairment of financial assets | -1.6 | -1.9 |
| Expected return on plan assets | 2.7 | 0.0 |
| Interest expense for personnel provisions | -19.8 | -17.1 |
| **Other financial results** | **-18.2** | **-18.6** |

**(32) Income taxes**
Income taxes are comprised of the following items:

| in € million | 2008 | 2007 |
|---|---|---|
| Current tax expense | 11.6 | 24.7 |
| Deferred tax expense/(income) relating to the origination and reversal of | | |
| temporary differences | 0.6 | -1.9 |
| tax loss carryforwards | -0.6 | -7.7 |
| | 0.0 | -9.6 |
| **Income taxes** | **11.6** | **15.1** |

Income tax expense of € 11.6 million for 2008 is € 16.8 million lower than the arithmetic income tax expense of € 28.4 million that would result from the application of the Austrian corporate income rate of 25% to profit before tax from continuing operations.

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

| in € million | 2008 | 2007 |
|---|---|---|
| **Profit before income taxes** | **113.4** | **128.2** |
| **Arithmetic tax expense** | **28.4** | **32.1** |
| Different foreign tax rates | 1.3 | 3.9 |
| Expenses not deductible for tax purposes, non-creditable withholding taxes | 5.5 | 4.4 |
| Income not subject to tax | -6.2 | -3.1 |
| Reduction in actual income tax expense due to utilisation of previously unrecognised tax losses and temporary differences | -8.4 | -27.0 |
| Reduction in deferred income tax expense due to utilisation of previously unrecognised tax losses and temporary differences | -4.8 | -3.2 |
| Deferred tax income due to changes in tax rates | -0.1 | -0.1 |
| Deferred income tax relating to prior periods | -0.3 | -0.4 |
| Current income tax relating to prior periods | -6.6 | 5.8 |
| Other | 2.8 | 2.7 |
| **Recognised tax expense** | **11.6** | **15.1** |

**(33) Expense categories**

Expenses are classified by category as follows:

| in € million | 2008 | 2007 |
|---|---|---|
| Cost of material and other production services | 829.4 | 736.4 |
| Personnel costs | 338.1 | 320.9 |
| Depreciation of property, plant and equipment and amortisation of other intangible assets | 67.7 | 51.2 |

**(34) Personnel costs**

The individual components of personnel costs are listed below:

| in € million | 2008 | 2007 |
|---|---|---|
| Wages and salaries | 260.1 | 248.1 |
| Pensions | | |
| Defined benefit plans | 2.5 | 0.0 |
| Defined contribution plans | 2.2 | 2.1 |
| Termination benefits | | |
| Defined benefit plans | 2.1 | 1.9 |
| Defined contribution plans | 1.4 | 1.3 |
| Voluntary payments | 1.5 | 2.2 |
| Fringe benefits | 68.3 | 65.3 |
| **Personnel costs** | **338.1** | **320.9** |

**(35) Loss for the year from discontinued operations**

The component items of this position are shown in the following table:

| in € million | 2008 | 2007 |
|---|---|---|
| Revenues | 10.2 | 18.2 |
| Cost of sales | -9.5 | -18.1 |
| **Gross profit** | **0.7** | **0.1** |
| Administrative expenses | -1.0 | -1.8 |
| Other income | 0.0 | 0.2 |
| **Operating results** | **-0.3** | **-1.5** |
| Financial results | -0.1 | -0.2 |
| **Loss before income taxes** | **-0.4** | **-1.7** |
| Income taxes | 0.0 | -0.4 |
| **Loss for the year on discontinued operations Waterproofing Division** | **-0.4** | **-2.1** |
| Loss on the sale of discontinued operations Waterproofing Division | -3.2 | 0.0 |
| **Loss for the year from discontinued operations Waterproofing Division** | **-3.6** | **-2.1** |
| Income for the year on discontinued operations Insulating Division | 2.4 | 0.0 |
| **Loss for the year from discontinued operations** | **-1.2** | **-2.1** |

The information on the discontinued Waterproofing Division covers the period from January to August of the 2008 financial year.

## Notes to the Cash Flow Statement

The cash flow statement shows the cash inflows and outflows from operating activities, investing activities and financing activities. Cash flows from investing and financing activities were determined on the basis of cash payments, while cash flow from operating activities was derived from the consolidated financial statements using the indirect method.

Changes in the balance sheet items of companies that report in foreign currencies are translated at average monthly exchange rates and adjusted for effects arising from changes in the consolidation range or in other businesses. Therefore, the cash flow statement cannot be derived directly from changes in the balance sheet items. As on the balance sheet, cash and cash equivalents are translated at the exchange rate in effect on the balance sheet date. The effects of changes in exchange rates on cash and cash equivalents are shown separately.

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

**(36) 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 the changes in the individual components of working capital and actual tax payments.

| in € million | 2008 | 2007 |
|---|---|---|
| Profit after income taxes from continuing operations | 101.8 | 113.1 |
| Adjustments for | | |
| Income taxes | 11.6 | 15.1 |
| Scheduled depreciation and amortisation | 49.9 | 48.1 |
| Impairment losses on property, plant and equipment and intangible assets | 17.8 | 3.1 |
| Impairment losses on financial assets | 1.6 | 1.9 |
| Proceeds from sale of non-current assets | -1.7 | -1.6 |
| Interest results | 19.0 | 20.4 |
| Dividend income | -0.5 | -0.4 |
| Results from associates | -2.2 | -1.4 |
| other non-cash changes | 15.3 | 8.7 |
| Change in working capital | | |
| Inventories | -81.5 | -53.2 |
| Trade receivables | -1.1 | 42.9 |
| Other receivables and assets | -4.5 | -7.4 |
| Provisions | -23.3 | -27.4 |
| Trade payables | 13.8 | -5.8 |
| Other liabilities | 21.1 | 14.0 |
| **Cash flow from operating activities** | **137.1** | **170.1** |
| Income taxes paid | -13.6 | -15.0 |
| **Net cash flow from operating activities** | **123.5** | **155.1** |

**(37) 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 2008 payments had not been received for the sale of property, plant and equipment totalling € 0.8 million (31.12.2007: € 1.3 million).

Non-cash additions of € 1.7 million to non-current assets resulted from an increase in the carrying value of obligations for site restoration and similar items. In the prior year, the contribution of land usage rights with a value of € 3.5 million by the minority shareholder of a Chinese subsidiary was presented as a non-cash effect.

Cash effects from business combinations or sale of companies (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.

**(38) Cash flow from financing activities**
Cash flow from financing activities includes outflows in the form of dividend payments as well as inflows resulting from an increase in loans and outflows arising from the repayment of loans.

The conversion of convertible bonds totalling € 3.3 million (2007: € 60.3 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.

**(39) Cash flow from discontinued operations**
The cash flow statement for the discontinued operations is presented below:

| in € million | 2008 | 2007 |
|---|---|---|
| Cash flow from operating activities | -2.0 | -0.3 |
| Cash flow from investing activities | 0.0 | -1.1 |
| Cash flow from financing activities | -0.2 | -0.4 |
| **Cash flow from discontinued operations** | **-2.2** | **-1.8** |

## Other Disclosures

**(40) Segment reporting**

The RHI Group comprises the continuing operations in the Refractories Division with the Steel and Industrial segments as well as the Raw Materials, Production and other segment, and the discontinued operations in the Insulating and Waterproofing Divisions.

The information on the Waterproofing Division for 2008 is related to the period from January to August.

**Primary segmentation by division in 2008**

| in € million | Steel | Industrial | Raw Materials, Production, other | Elimi-nation | Continuing operations | Discontinued operations |
|---|---|---|---|---|---|---|
| External revenues | 957.6 | 605.6 | 33.5 | 0.0 | 1,596.7 | 10.2 |
| Intragroup revenues | 0.0 | 0.0 | 979.0 | -979.0 | 0.0 | 0.0 |
| **Segment revenues** | **957.6** | **605.6** | **1,012.5** | **-979.0** | **1,596.7** | **10.2** |
| | | | | | | |
| Operating results | 83.9 | 86.0 | -21.5 | | 148.4 | -0.3 |
| Financial results | | | | | -37.2 | -0.1 |
| Results from associates | | | 2.2 | | 2.2 | 0.0 |
| Profit/(loss) before income taxes | | | | | 113.4 | -0.4 |
| Income taxes | | | | | -11.6 | 0.0 |
| **Profit from continuing operations** | | | | | **101.8** | |
| Loss for the year on discontinued operations Waterproofing Division | | | | | | -0.4 |
| Loss on the sale of discontinued operations Waterproofing Division | | | | | | -3.2 |
| Income for the year on discontinued operations Insulating Division | | | | | | 2.4 |
| **Loss for the year from discontinued operations** | | | | | | **-1.2** |
| | | | | | | |
| Profit/(loss) attributable to | | | | | | |
| equity holders of RHI AG | | | | | 99.3 | -1.2 |
| minority interest | | | | | 2.5 | 0.0 |

| in € million | Steel | Industrial | Raw Materials, Production, other | Continuing operations |
|---|---|---|---|---|
| Investments in associates | | | 14,1 | 14,1 |
| Other assets | 241.5 | 162.4 | 735.8 | 1,139.7 |
| Unattributed assets | | | | 169.5 |
| **Total assets** | | | | **1,323.3** |
| | | | | |
| Debt | 157.1 | 91.3 | 468.6 | 717.0 |
| Unattributed debts | | | | 424.5 |
| **Total debt** | | | | **1,141.5** |
| | | | | |
| Investments (without financial assets) | 6.4 | 1.2 | 69.1 | **76.7** |
| Depreciation and amortisation | 4.6 | 1.3 | 44.0 | **49.9** |
| Impairment (without financial assets) | 0.0 | 0.0 | 17.8 | **17.8** |

**Primary segmentation by division in 2007**

| in € million | Steel | Industrial | Raw Materials, Production, other | Elimi-nation | Continuing operations | Discontinued operations |
|---|---|---|---|---|---|---|
| External revenues | 891.8 | 536.6 | 39.2 | 0.0 | 1,467.6 | 18.2 |
| Intragroup revenues | 0.0 | 0.0 | 919.7 | -919.7 | 0.0 | 0.0 |
| **Segment revenues** | **891.8** | **536.6** | **958.9** | **-919.7** | **1,467.6** | **18.2** |
| Operating results | 82.7 | 66.7 | 16.4 | | 165.8 | -1.5 |
| Financial results | | | | | -39.0 | -0.2 |
| Results from associates | | | 1.4 | | 1.4 | 0.0 |
| Profit/(loss) before income taxes | | | | | 128.2 | -1.7 |
| Income taxes | | | | | -15.1 | -0.4 |
| **Profit from continuing operations** | | | | | **113.1** | |
| **Loss for the year from discontinued operations** | | | | | | **-2.1** |
| Profit/(loss) attributable to | | | | | | |
| equity holders of RHI AG | | | | | 111.5 | -2.1 |
| minority interest | | | | | 1.6 | 0.0 |

| in € million | Steel | Industrial | Raw Materials, Production, other | Continuing operations | Discontinued operations |
|---|---|---|---|---|---|
| Investments in associates | | | 12.4 | 12.4 | 0.0 |
| Other assets | 249.1 | 139.9 | 673.4 | 1,062.4 | 7.0 |
| Unattributed assets | | | | 158.1 | 0.4 |
| **Total assets** | | | | **1,232.9** | **7.4** |
| Debt | 142.1 | 79.8 | 382.5 | 604.4 | 5.8 |
| Unattributed debts | | | | 534.4 | 0.1 |
| **Total debt** | | | | **1,138.8** | **5.9** |
| Investments | | | | | |
| (without financial assets) | 4.8 | 0.8 | 73.1 | **78.7** | **0.1** |
| Depreciation and amortisation | 4.3 | 1.4 | 42.4 | **48.1** | **0.1** |
| Impairment (without financial assets) | 0.0 | 0.8 | 2.3 | **3.1** | **0.0** |

In order to improve comparability, the assets and liabilities of the discontinued Waterproofing Division are shown separately.

**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 2008 and 2007:

| | 1.1. – 31.12.2008 | | 31.12.2008 | 1.1. – 31.12.2007 | | 31.12.2007 |
|---|---|---|---|---|---|---|
| in € million | Revenues | Investments | Assets | Revenues | Investments | Assets |
| Austria | 45.0 | 23.2 | 454.1 | 51.0 | 26.9 | 424.4 |
| Rest of EU | 596.1 | 11.3 | 311.3 | 548.1 | 10.2 | 286.0 |
| Other Europe | 146.9 | 1.5 | 37.5 | 130.9 | 0.7 | 27.0 |
| North and Latin America | 422.3 | 7.8 | 218.0 | 374.2 | 4.9 | 212.7 |
| Asia-Pacific, Africa | 386.4 | 32.9 | 180.0 | 363.4 | 36.0 | 153.4 |
| Consolidation and not allocated | 0.0 | 0.0 | 122.4 | 0.0 | 0.0 | 129.4 |
| **Total** | **1,596.7** | **76.7** | **1,323.3** | **1,467.6** | **78.7** | **1,232.9** |

The segment information for the discontinued Waterproofing Division, which is only active in Austria, is as follows: revenues € 10.2 million (2007: € 18.2 million), investments € 0.0 million (2007: € 0.1 million) and assets € 0.0 million (31.12.2007: € 7.4 million).

**(41) 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.

| | 2008 | 2007 |
|---|---|---|
| Profit attributable to equity holders of RHI AG (in € million) | 99.3 | 111.5 |
| Weighted average number of shares | 37,582,558 | 35,741,836 |
| **Basic earnings per share (in €)** | **2.64** | **3.12** |

The share of profit attributable to the shareholders of RHI AG is based on profit of € 101.8 million from continuing operations (2007: € 113.1 million) minus the € 2.5 million share of profit attributable to minority interests (2007: € 1.6 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.

| | 2008 | 2007 |
|---|---|---|
| Profit attributable to equity holders of RHI AG (in € million) | 99.3 | 111.5 |
| Plus interest expense of convertible bonds (in € million) | 0.7 | 1.4 |
| Less current taxes (in € million) | -0.2 | -0.4 |
| Adjusted result for the period (in € million) | 99.8 | 112.5 |
| | | |
| Weighted average number of shares | 37,582,558 | 35,741,836 |
| Potential number of shares from convertible bonds | 2,236,481 | 4,077,203 |
| Number of diluted shares | 39,819,039 | 39,819,039 |
| **Diluted earnings per share (in €)** | **2.51** | **2.82** |

### (42) 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:

| in € million | 31.12.2008 Carrying amount | 31.12.2008 Fair value | 31.12.2007 Carrying amount | 31.12.2007 Fair value |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Prepayments on financial assets | 3.1 | 3.1 | 0.4 | 0.4 |
| Non-current receivables including current portion | 1.7 | 1.7 | 2.4 | 2.4 |
| Trade and other current receivables | 272.7 | 272.7 | 283.8 | 283.8 |
| Cash and cash equivalents | 46.3 | 46.3 | 35.0 | 35.0 |
| | | | | |
| **Financial liabilities** | | | | |
| Non-current subordinated convertible bonds | 0.0 | 0.0 | 17.2 | 17.2 |
| Non-current financial liabilities | 302.4 | 297.9 | 349.4 | 327.4 |
| Current subordinated convertible bonds | 13.9 | 13.9 | 0.0 | 0.0 |
| Current financial liabilities | 118.9 | 118.9 | 84.3 | 84.3 |
| Trade and other current payables [1)] | 282.1 | 282.1 | 251.5 | 251.5 |

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 | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Financial assets** | | |
| Non-current financial assets - available for sale | 34.6 | 39.1 |
| Current financial assets - available for sale | 1.6 | 2.9 |
| Financial assets - held for trading | 6.2 | 0.5 |
| | | |
| **Financial liabilities** | | |
| Financial liabilities - held for trading | 0.0 | 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 during 2008 and 2007 is shown in the following table, classified according to the valuation categories defined in IAS 39:

| in € million | 2008 | 2007 [1)] |
|---|---|---|
| Net loss/gain on financial assets classified as available for sale | -0.7 | 0.7 |
| Net loss from loans and receivables as well as financial liabilities | -22.7 | -27.7 |
| Net gain on financial assets and financial liabilities classified as held for trading | 6.5 | 0.1 |

1) The comparable date for 2007 were adjusted to reflect the relevant accounting standards.

The net result on available-for-sale financial assets comprises income from securities, dividends, impairment losses and unrealised results recognised directly in equity as well as any gains or losses on sale. As in the prior year, the net results do not include any changes in the fair value of available-for-sale financial assets that were transferred from equity to the income statement.

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 forward exchange contracts and 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 are not monetary per definition, 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 or are hedged through forward exchange contracts. 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 2008:

| in € million | USD | EUR | ZAR | Other | Total |
|---|---|---|---|---|---|
| Financial assets | 236.7 | 19.5 | 2.8 | 9.8 | 268.8 |
| Financial liabilities and provisions | -276.9 | -50.1 | -5.1 | -7.0 | -339.1 |
| **Net foreign currency position** | **-40.2** | **-30.6** | **-2.3** | **2.8** | **-70.3** |

The foreign currency positions as of 31 December 2007 are as follows:

| 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 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 the 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 2008 would have had the following effect on profit or loss and equity (both excluding income taxes):

| | Appreciation of 10% | | Devaluation of 10% | |
|---|---|---|---|---|
| in € million | Gain | Equity | Loss | Equity |
| US-dollar | 4.9 | 4.1 | -5.6 | -4.7 |
| Euro | 2.8 | 2.8 | -3.4 | -3.4 |
| South African rand | 0.1 | -0.5 | -0.2 | 0.6 |
| Other currencies | 0.0 | -4.9 | -0.1 | 6.0 |

The hypothetical effect on profit or loss as of 31 December 2007 can be summarised as follows:

| | 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 |

**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 2008 had been 100 basis points higher or lower, profit would have been € 0.6 million (31.12.2007: € 0,6 million) lower or higher. As in the prior year, this hypothetical effect on profit is related solely to primary, variable interest net financial liabilities.

**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. It is highly probable that the loss arising from the change in the value of this investment fund will not exceed € 1.7 million (2007: € 1.7 million) within one year.

**(43) Notes on related party transactions**

**Related companies**

The RHI Group maintained business relations with two associates – MAGNIFIN Magnesiaprodukte GmbH & Co KG, St. Jakob, Austria, and Shandong RHI New Materials Co., Ltd., Zibo City, PR China – during 2008 and 2007.

In 2008 the Group provided services totalling € 2.4 million (2007: € 4.0 million) to these related companies and received services valued at € 1.8 million (2007: € 1.5 million).

The receivables due from MAGNIFIN Magnesiaprodukte GmbH & Co KG, St. Jakob, Austria, totalled € 0.7 million and € 0.9 million as of 31 December 2008 and 2007, respectively. The liabilities due to these companies as of 31 December 2008 amounted to € 1.0 million (31.12.2007: € 1.2 million). As of 31 December 2007 liabilities of € 0.2 million were due to Shandong RHI New Materials Co., Ltd., Zibo City, PR China.

**Related persons**

The income statement for 2008 includes expenses of € 5.4 million (2007: € 7.5 million) for the Management Board. Liabilities and provisions of € 6.0 million were recognised for the Management Board in 2008 (31.12.2007: € 4.5 million). Salaries and other current benefits totalling € 4.5 million were paid to the members of the Management Board during the reporting year (2007: € 4.4 million).

Payments made to former members of the Management Board and their surviving dependents totalled € 0.5 million (2007: € 2.6 million). In the prior year this position included € 2.3 million of payments made in connection with the termination of employment.

The members of the Supervisory Board received remuneration of € 0.2 million in 2008 (2007: € 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 in note (46).

**(44) Personnel**

The average number of employees in the RHI Group was:

| | 2008 | 2007 |
|---|---|---|
| Salaried employees | 3,171 | 2,943 |
| Waged workers | 4,521 | 4,264 |
| **Continuing operations** | **7,692** | **7,207** |
| **Discontinued operations** | **88** | **98** |

**(45) Significant events after the balance sheet date**

The Management Board of RHI AG announced the reorganisation of the Group into three areas: central units, shared services and operating divisions. As of 1 July 2009 the related production facilities and research activities will also be allocated to the Steel, Industrial or Raw Materials Divisions. The first report issued by the RHI Group in accordance with this new structure will cover the third quarter of 2009.

**(46) RHI Group Companies as of 31 December 2008**

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

| | | | Parent | Currency | Nominal capital in local currency | Share in % |
|---|---|---|---|---|---|---|
| 1. | RHI AG, Vienna, Austria | F | | EUR | 275,626,514 | |
| 2. | Betriebs- und Baugesellschaft mbH, Wiesbaden, Germany | F | 5. | EUR | 894,761 | 100.00 |
| 3. | Didier Belgium N.V., Evergem, Belgium | F | 63. | EUR | 74,368 | 99.90 |
| 4. | Didier Vertriebsgesellschaft mbH, Wiesbaden, Germany | F | 5. | EUR | 178,952 | 100.00 |
| 5. | Didier-Werke AG, Wiesbaden, Germany | F | 1.,26. | EUR | 63,000,000 | 97.54 |
| 6. | Dolomite Franchi S.p.A., Brescia, Italy | F | 26. | EUR | 4,160,000 | 100.00 |
| 7. | D.S.I.P.C.-Didier Société Industrielle de Production et de Constructions, Breuillet, France | F | 5. | EUR | 1,735,990 | 99.88 |
| 8. | Dutch Brasil Holding B.V., Arnhem, Netherlands | F | 65. | EUR | 18,000 | 100.00 |
| 9. | Dutch MAS B.V., Arnhem, Netherlands | F | 5. | EUR | 30,000 | 100.00 |
| 10. | Dutch US Holding B.V., Arnhem, Netherlands | F | 65. | EUR | 18,000 | 100.00 |
| 11. | FC Technik AG, Winterthur, Switzerland | F | 26. | CHF | 100,000 | 51.00 |
| 12. | Full Line Supply Africa (Pty) Limited, Sandton, South Africa | F | 26. | ZAR | 100 | 100.00 |
| 13. | GIX International Limited, Wakefield, Great Britain | F | 15. | GBP | 1,004 | 100.00 |
| 14. | INDRESCO U.K. Ltd., Wakefield, Great Britain | F | 13. | GBP | 10,029,219 | 100.00 |
| 15. | Latino America Refractories ApS, Kopenhagen, Denmark | F | 72. | EUR | 20,000 | 100.00 |
| 16. | Liaoning RHI Jinding Magnesia Co., Ltd., Dashiqiao City, PR China | F | 26. | CNY | 250,000,000 | 80.00 |
| 17. | LLC "RHI WOSTOK", Moscow, Russia (formerly LLC "RHI CIS") | F | 1.,26. | RUB | 3,500,000 | 100.00 |
| 18. | Lokalbahn Mixnitz-St. Erhard AG, Vienna, Austria | F | 56. | EUR | 119,397 | 100.00 |
| 19. | Magnesit Anonim Sirketi, Eskisehir, Turkey | F | 9. | TRY | 16,750,000 | 100.00 |
| 20. | Magnesitwerk Aken Vertriebsgesellschaft mbH, Aken, Germany | F | 5. | EUR | 130,000 | 100.00 |
| 21. | MARVO Feuerungs- und Industriebau GmbH, Kerpen, Germany | F | 5. | EUR | 513,450 | 100.00 |
| 22. | MARVO Feuerungs- und Industriebau GmbH, Siersleben, Germany | F | 21. | EUR | 25,565 | 100.00 |
| 23. | Producción RHI México, S. de R.L. de C.V., Ramos Arizpe, Mexico | F | 48.,72. | MXN | 9,441,250 | 100.00 |
| 24. | Productora RHI Chile S.A., Santiago, Chile (formerly Refractarios RHI CHILE LTDA.) | F | 13.,72. | CLP | 12,073,359,422 | 100.00 |
| 25. | Quintermina AG, Chur, Switzerland | F | 26. | CHF | 100,000 | 51.00 |
| 26. | Radex Vertriebsgesellschaft mbH, Leoben, Austria | F | 69. | EUR | 60,000,000 | 100.00 |
| 27. | REFEL S.p.A., San Vito al Tagliamento, Italy | F | 5. | EUR | 5,200,000 | 100.00 |
| 28. | Refractory Intellectual Property GmbH, Vienna, Austria | F | 1. | EUR | 17,500 | 100.00 |
| 29. | Refractory Intellectual Property GmbH & Co KG, Vienna, Austria | F | 1.,28. | EUR | 10,000 | 100.00 |
| 30. | RHI Africa Investment Holdings (Pty) Ltd. i.L., Sandton, South Africa (formerly RHI Refractories Africa (Pty) Ltd.) | F | 43. | ZAR | 10,000 | 100.00 |
| 31. | RHI Argentina S.R.L., Buenos Aires, Argentina | F | 15.,72. | ARS | 10,000 | 100.00 |
| 32. | RHI Canada Inc., Burlington, Canada | F | 72. | CAD | 21,250,002 | 100.00 |
| 33. | RHI Chile S.A., Santiago, Chile | F | 13.,72. | CLP | 12,774,407,413 | 100.00 |
| 34. | RHI Clasil Limited, Hyderabad, India | F | 72. | INR | 184,000,000 | 51.00 |
| 35. | RHI Dinaris GmbH, Wiesbaden, Germany | F | 63. | EUR | 500,000 | 100.00 |
| 36. | RHI Finance A/S, Hellerup, Denmark | F | 1. | EUR | 70,000 | 100.00 |
| 37. | RHI GLAS GmbH, Wiesbaden, Germany | F | 63. | EUR | 500,000 | 100.00 |
| 38. | RHI India Private Limited, Navi Mumbai, India | F | 72. | INR | 835,000 | 60.00 |
| 39. | RHI Isithebe (Pty) Limited, Sandton, South Africa | F | 26. | ZAR | 1,500 | 100.00 |
| 40. | RHI Monofrax, Ltd., Wilmington, USA | F | 10. | USD | 3,558,751 | 100.00 |
| 41. | RHI Monofrax PPE LLC, Wilmington, USA | F | 40. | USD | 1,000 | 100.00 |
| 42. | RHI-Refmex, S.A. de C.V., Ramos Arizpe, Mexico | F | 48.,72. | MXN | 163,937,660 | 100.00 |

| | | | Parent | Currency | Nominal capital in local curreny | Share in % |
|---|---|---|---|---|---|---|
| 43. | RHI Refractories Africa (Pty) Ltd., Sandton, South Africa (formerly RHI Africa Investment Holdings (Pty) Ltd.) | F | 5. | ZAR | 215,705 | 100.00 |
| 44. | RHI Refractories Andino C.A., Puerto Ordaz, Venezuela | F | 72. | VEF | 1,600,001 | 100.00 |
| 45. | RHI Refractories Asia Ltd., Hong Kong, PR China | F | 64. | HKD | 1,000 | 100.00 |
| 46. | RHI Refractories Asia Pacific Pte. Ltd., Singapore | F | 1. | SGD | 300,000 | 100.00 |
| 47. | RHI Refractories (Dalian) Co., Ltd., Dalian, PR China | F | 26. | CNY | 287,273,962 | 100.00 |
| 48. | RHI Refractories España, S.L., Lugones, Spain | F | 5.,9. | EUR | 6,930,000 | 100.00 |
| 49. | RHI Refractories France S.A., Breuillet, France | F | 64. | EUR | 703,800 | 100.00 |
| 50. | RHI Refractories Holding Company, Dover, USA | F | 72. | USD | 1 | 100.00 |
| 51. | RHI Refractories Ibérica, S.L., Madrid, Spain | F | 64. | EUR | 30,050 | 100.00 |
| 52. | RHI Refractories Italiana s.r.l., Brescia, Italy | F | 64. | EUR | 110,000 | 100.00 |
| 53. | RHI Refractories Liaoning Co., Ltd., Bayuquan, PR China | F | 26. | CNY | 180,000,000 | 60.00 |
| 54. | RHI Refractories Mercosul Ltda, Sao Paulo, Brazil | F | 65.,72. | BRL | 49,250 | 100.00 |
| 55. | RHI Refractories Nord AB, Stockholm, Sweden | F | 64. | SEK | 1,000,000 | 100.00 |
| 56. | RHI Refractories Raw Material GmbH, Vienna, Austria | F | 1.,26. | EUR | 35,000 | 100.00 |
| 57. | RHI Refractories Site Services GmbH, Wiesbaden, Germany | F | 5. | EUR | 1,025,000 | 100.00 |
| 58. | RHI Refractories (Site Services) Ltd., Newark, Great Britain | F | 59. | GBP | 1,350,000 | 100.00 |
| 59. | RHI Refractories Spaeter GmbH, Urmitz, Germany | F | 5. | EUR | 256,157 | 66.67 |
| 60. | RHI Refractories UK Limited, Clydebank, Great Britain | F | 5. | GBP | 8,875,000 | 100.00 |
| 61. | RHI Rückversicherungs AG, Vaduz, Liechtenstein | F | 26. | EUR | 900,000 | 100.00 |
| 62. | RHI Trading (Dalian) Co., Ltd., Dalian, PR China | F | 26. | CNY | 39,865,230 | 100.00 |
| 63. | RHI Urmitz AG & Co KG, Urmitz, Germany | F | 4.,5. | EUR | 2,454,250 | 100.00 |
| 64. | SAPREF AG für feuerfestes Material, Basel, Switzerland | F | 72. | CHF | 4,000,000 | 100.00 |
| 65. | Veitscher Vertriebsgesellschaft mbH, Vienna, Austria | F | 1. | EUR | 36,336 | 100.00 |
| 66. | Veitsch-Radex America Inc., Burlington, Canada | F | 32. | CAD | 1 | 100.00 |
| 67. | Veitsch-Radex America Inc., Mokena, USA | F | 32. | USD | 100 | 100.00 |
| 68. | Veitsch-Radex GmbH, Vienna, Austria | F | 1. | EUR | 35,000 | 100.00 |
| 69. | Veitsch-Radex GmbH & Co, Vienna, Austria | F | 1.,68. | EUR | 106,000,000 | 100.00 |
| 70. | Veitsch-Radex Vertriebsgesellschaft mbH, Vienna, Austria | F | 1. | EUR | 36,336 | 100.00 |
| 71. | VERA FE, Dnipropetrovsk, Ukraine | F | 26. | UAH | 192,600 | 100.00 |
| 72. | VRD Americas B.V., Arnhem, Netherlands | F | 1.,26. | EUR | 33,750,450 | 100.00 |
| 73. | Zimmermann & Jansen GmbH, Düren, Germany | F | 5. | EUR | 3,835,000 | 100.00 |
| 74. | Dolomite Franchi GmbH i.L., Hattingen, Germany | N | 6. | EUR | 25,564 | 100.00 |
| 75. | Dr.-Ing. Petri & Co. Unterstützungs-Gesellschaft mbH, Duisburg, Germany | N | 5. | DEM | 50,000 | 100.00 |
| 76. | RHI Réfractaires Algérie E.U.R.L., Sidi Amar, Algeria | N | 49. | DZD | 100,000 | 100.00 |
| 77. | Thor Ceramics Limited, Clydebank, Great Britain | N | 5. | GBP | 1 | 100.00 |
| 78. | Dolomite di Montignoso S.p.A. i.L., Genoa, Italy | E | 6. | EUR | 743,600 | 28.56 |
| 79. | MAGNIFIN Magnesiaprodukte GmbH & Co KG, St. Jakob, Austria | E | 1.,83. | EUR | 9,447,468 | 50.00 |
| 80. | Società Dolomite Italiana SDI S.p.A., Gardone Val Trompia, Italy | E | 6. | EUR | 208,000 | 50.00 |
| 81. | LLC NSK Ogneupor Holding, Moscow, Russia | I | 26. | RUB | 10,000 | 49.00 |
| 82. | LLC NSK Ogneupor, Novokuznetsk, Russia | I | 26. | RUB | 10,000 | 49.00 |
| 83. | MAGNIFIN Magnesiaprodukte GmbH & Co KG, St. Jakob, Austria | I | 1. | EUR | 35,000 | 50.00 |
| 84. | Stopinc AG, Hünenberg, Switzerland | I | 5. | CHF | 1,000,000 | 50.00 |
| 85. | Treuhandgesellschaft Feuerfest mbH, Bonn, Germany | I | 5.,57.,63. | DEM | 50,000 | 38.00 |
| 86. | Zimmermann & Jansen Siam Co. Ltd., Rayong, Thailand | I | 73. | THB | 4,000,000 | 39.80 |

F full consolidation
E associates, equity consolidation
N not consolidated
I investments
i.L. in liquidation

## Members of the Management Board

Thomas Fahnemann, Vienna, Chairman
(since 1 January 2009)

Stefano Colombo, Vienna, Vice-Chairman

Giorgio Cappelli, Vienna

Manfred Hödl, Vienna

Rudolf Payer, Vienna

Andreas Meier was also a member of the Management Board during the reporting year (Chairman up to 31 December 2008).

## Members of the Supervisory Board

Michael Gröller, Vienna, Chairman

Herbert Cordt, Vienna, Vice-Chairman

Helmut Draxler, Vienna, Vice-Chairman

Ulrich Glaunach, Vienna (since 29 May 2008)

Hubert Gorbach, Frastanz

Gerd Peskes, Düsseldorf, Germany

Stanislaus Prince 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

Mark J. Eckhout, St. Charles, USA, was also a member of the Supervisory Board during the reporting year (up to 29 May 2008).

Vienna, 11 March 2009

The Management Board

Thomas Fahnemann
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 2008. Those financial statements comprise the balance sheet as at 31 December 2008, and the income statement, statement of income and expenses recognised 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 2008 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 2009

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

We hereby declare to the best of our knowledge that the consolidated financial statements, which were prepared in accordance with International Financial Reporting Standards, provide a true and fair view of the combined asset, financial and earnings positions of all companies included in the consolidation and that the management report provides a true and fair view of the asset, financial and earnings positions of the RHI Group and also describes the major risks and uncertainties to which the Group is exposed.

The results of the financial year ending on 31 December 2008 do not necessarily permit conclusions on the future development of results.

Vienna, 11 March 2009

The Management Board

Thomas Fahnemann
Chairman
Division Raw Materials, Production
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 2008 in accordance with the Austrian Commercial Code (UGB)

# Management Report

As was pointed our 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 2009

Management Board

Thomas Fahnemann
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 2008. At these meetings and on other occasions, the Management Board informed the Supervisory Board about important matters relating to the management, operating activities and the situation of the company. The Supervisory Board therefore had ample opportunity to fulfil its obligation to remain informed of and to monitor company operations. The Supervisory Board saw no reason to raise objections to the activities and operations of the Management Board. Pursuant to Article 58 of the Corporate Governance Code, it is pointed out that one member of the Supervisory Board (Mr. M. Eckhout) did not personally attend more than half of the meetings in the financial year 2008.

The financial statements of RHI AG and the consolidated financial statements 2008 were audited and certified without qualification by KPMG Austria GmbH, Vienna, certified public accountants, auditors and tax consultants, duly appointed auditors at the 29th 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 2 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 2008 and approved these at its meeting on 22 April 2009. 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 audit committee held four meetings in 2008; the presidium (at the same time nomination and compensation committee) held nine meetings, with two meetings being held in the function of the nomination committee and two in the function of the compensation committee. In addition to the audit of the financial statements, the topics strategy, organisation, internal auditing, personnel and current developments were discussed at these meetings.

Vienna, 22 April 2009

Michael Gröller
Chairman

# Balance Sheet of RHI AG 2008[1]

| in € 1,000 | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **ASSETS** | | |
| **Fixed assets** | | |
| Intangible assets | 14,708.4 | 17,560.5 |
| Property, plant and equipment | 13,376.2 | 14,466.0 |
| Financial assets | 642,129.1 | 615,080.0 |
| | **670,213.7** | **647,106.5** |
| **Current assets** | | |
| Inventories | 33,788.3 | 32,989.2 |
| Receivables and other assets | 575,365.0 | 576,135.1 |
| Cash and cash equivalents | 15,120.0 | 7,700.6 |
| | **624,273.3** | **616,824.9** |
| **Prepaid Expenses and deferred charges** | **104.5** | **338.0** |
| | **1,294,591.5** | **1,264,269.4** |
| **EQUITY AND LIABILITIES** | | |
| **Equity** | | |
| Common stock | 275,626.5 | 272,349.0 |
| Additional paid-in capital | 39,131.8 | 39,129.3 |
| Accumulated profit | 268,179.5 | 222,486.5 |
| | **582,937.8** | **533,964.8** |
| **Subordinated mezzanine capital** | | |
| Subordinated convertible bonds | 13,760.0 | 17,040.0 |
| **Effective equity capital** | **596,697.8** | **551,004.8** |
| **Provisions** | | |
| Provisions for termination benefits and pensions | 46,501.9 | 47,568.4 |
| Other provisions | 96,929.7 | 83,674.5 |
| | **143,431.6** | **131,242.9** |
| **Liabilities** | | |
| Financial liabilities | 366,605.7 | 409,374.0 |
| Trade payables | 14,456.6 | 15,313.8 |
| Other liabilities | 173,399.8 | 157,333.9 |
| | **554,462.1** | **582,021.7** |
| | **1,294,591.5** | **1,264,269.4** |
| Contingent liabilities | 72,631.7 | 38,524.0 |

[1] The 2008 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 2008[1]

| in € 1,000 | 2008 | 2007 |
|---|---|---|
| Revenues | 1,121,484.0 | 976,147.7 |
| Changes in inventories and services not yet invoiced | 1,256.5 | -384.1 |
| Other own work capitalised | 58,169.1 | 38,700.8 |
| Cost of material and other production services | -807,709.7 | -671,308.9 |
| Personnel expenses | -68,083.7 | -66,955.1 |
| Depreciation and amortisation | -9,039.2 | -9,728.7 |
| Other operating expenses | -266,227.1 | -204,028.1 |
| **Operating result** | **29,849.9** | **62,443.6** |
| Income from investments | 15,571.3 | 10,889.8 |
| Income from other non-current securities | 594.2 | 416.2 |
| Other interest and similar income | 26,295.8 | 20,207.0 |
| Expenses from financial assets | -259.1 | -507.3 |
| Interest and similar expenses | -25,159.1 | -28,681.6 |
| **Financial result** | **17,043.1** | **2,324.1** |
| **Result from ordinary activities** | **46,893.0** | **64,767.7** |
| Income taxes | -1,200.0 | -2,032.8 |
| **Profit for the year** | **45,693.0** | **62,734.9** |
| Profit carried forward | 222,486.5 | 159,751.6 |
| **Accumulated profit** | **268,179.5** | **222,486.5** |

# 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 | 2008 | 2007[1] | 2006 | 2005 | 2004 | 2003 | in € million |
|---|---|---|---|---|---|---|---|
| **Revenues** | **1,596.7** | **1,467.6** | **1,335.8** | **1,199.4** | **1,119.8** | **1,232.6** | **Revenues** |
| Steel | 957.6 | 891.8 | 815.8 | 735.8 | 1,102.6 | 1,033.6 | Refractories |
| Industrial | 605.6 | 536.6 | 463.2 | 408.9 | | | |
| Raw Materials, Production, other | 1,012.5 | 958.9 | 884.7 | 792.0 | | | |
| | | | | | | 166.9 | Insulating |
| Consolidation | -979.0 | -919.7 | -827.9 | -737.3 | 17.2 | 32.1 | Consolidation, other |
| **EBITDA** | **216.1** | **217.0** | **179.5** | **156.4** | **166.7** | **174.7** | **EBITDA** |
| **EBIT** | **148.4** | **165.8** | **133.8** | **115.5** | **125.5** | **122.0** | **EBIT** |
| Steel | 83.9 | 82.7 | 68.3 | 59.7 | 123.2 | 115.9 | Refractories |
| Industrial | 86.0 | 66.7 | 58.3 | 49.1 | | | |
| Raw Materials, Production, other | -21.5 | 16.4 | 7.2 | 6.7 | | | |
| | | | | | | 7.1 | Insulating |
| | | | | | 2.3 | -1.0 | Overhead, other |
| **Profit continuing operations** | **101.8** | **113.1** | **97.1** | **82.8** | **92.6** | | **Profit continuing operations** |
| **Profit discontinued operations** | **-1.2** | **-2.1** | **60.8** | **14.5** | **7.1** | | **Profit discontinued operations** |
| **Profit for the year** | **100.6** | **111.0** | **157.9** | **97.3** | **99.7** | **77.5** | **Profit for the year** |
| **Profit attributable to equity holders of RHI AG** | **98.1** | **109.4** | **155.0** | **95.6** | **95.0** | **72.9** | **Profit attributable to equity holders of RHI AG** |
| **Cash flow from operating activities** | **123.5** | **155.1** | **50.9** | **108.3** | **93.5** | **100.2** | **Cash flow from operating activities** |
| **Cash flow from investing activities** | **-73.2** | **-102.4** | **177.9** | **-60.3** | **-56.5** | **-26.6** | **Cash flow from investing activities** |
| **Cash flow from financing activities** | **-34.9** | **-81.9** | **-205.0** | **-47.7** | **-43.1** | **-86.6** | **Cash flow from financing activities** |
| **Non-current assets** | **606.4** | **597.4** | **545.5** | **553.5** | **652.4** | **613.5** | **Non-current assets** |
| **Financial liabilities net**[2] | **375.0** | **398.7** | **419.7** | **636.4** | **659.6** | **665.5** | **Financial liabilities net**[2] |
| **Employees (average)** | **7,692** | **7,207** | **6,526** | **6,367** | **6,094** | **7,836** | **Employees (average)** |
| **Equity ratio (in %)**[3] | **13.7** | **7.7** | **-5.4** | **-14.2** | **-24.8** | **-36.1** | **Equity ratio (in %)**[3] |
| **Return on capital employed (in %)**[4] | **20.1** | **24.2** | **21.2** | **19.7** | **20.3** | **18.9** | **Return on capital employed (in %)**[4] |
| **Return on average fixed assets**[5] | **31.0** | **37.2** | **31.6** | **28.6** | **27.8** | **25.0** | **Return on average fixed assets**[5] |
| **Basic earnings per share (in €)**[6] | **2.61** | **3.06** | **5.81** | **4.07** | **4.63** | **3.65** | **Basic earnings per share (in €)**[6] |
| **Diluted earnings per share (in €)**[7] | **2.48** | **2.77** | **4.01** | **2.55** | **2.58** | **2.04** | **Diluted earnings per share (in €)**[7] |
| **Continuing operations** | | | | | | | **Continuing operations** |
| Basic earnings per share (in €)[6] | 2.64 | 3.12 | 3.53 | 3.46 | | | Basic earnings per share (in €)[6] |
| Diluted earnings per share (in €)[7] | 2.51 | 2.82 | 2.48 | 2.19 | | | Diluted earnings per share (in €)[7] |
| **Dividend per share (in €)** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **Dividend per share (in €)** |

1 adjusted for the sale of Isolit-Isolier GmbH

2 Financial liabilities net = financial liabilities - cash and cash equivalents

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

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

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

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

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