Management Report
RHI Group 2010

Management Report

RHI Group

in € million	2010	2009[1]	Change
Revenues	**1,522.9**	**1,236.9**	**23.1%**
Steel Division	977.3	703.6	38.9%
Industrial Division	517.8	513.6	0.8%
Raw Materials Division			
External revenues	27.8	19.7	41.1%
Intragroup revenues	137.4	115.4	19.1%
Operating result[2]	**138.8**	**79.0**	**75.7%**
Steel Division	62.7	2.7	2,222.2%
Industrial Division	74.3	64.6	15.0%
Raw Materials Division	1.8	11.7	(84.6)%
Operating result margin	**9.1%**	**6.4%**	**42.2%**
Steel Division	6.4%	0.4%	1,500.0%
Industrial Division	14.3%	12.6%	13.5%
Raw Materials Division	1.1%	8.7%	(87.4)%
EBIT	**126.0**	**54.8**	**129.9%**
Steel Division	61.7	(6.7)	1,020.9%
Industrial Division	60.6	54.2	11.8%
Raw Materials Division	3.7	7.3	(49.3)%
EBIT margin	**8.3%**	**4.4%**	**88.6%**
Steel Division	6.3%	(1.0)%	730.0%
Industrial Division	11.7%	10.6%	10.4%
Raw Materials Division	2.2%	5.4%	(59.3)%

[1] after reclassification

[2] before reversal of impairment losses/impairment losses and restructuring expenses

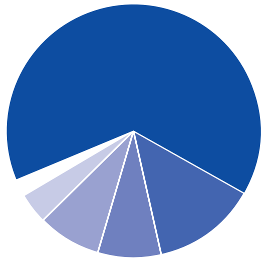
Economic Development 2010

Following the most massive downturn ever recorded, the global economy grew at a rate moderately above the trend in the year 2010. This overall picture is made up of greatly differing parts though. The euro area recovered, like the world's other major economic areas, from the deep recession of the year 2009, but the development was very inhomogeneous. Germany and some smaller neighbouring countries picked up substantially. At the same time, some peripheral countries of the euro zone implemented painful correction programmes and remain in a deep recession. The US economy grew only marginally above the long-term average in 2010, but recorded a significant increase in investments, which subsequently had a positive effect on the job market situation. The Asian economies recovered faster and better than the USA and the euro area thanks to the anti-cyclical investment policy of China. The emerging countries saw only moderate deviations from the previous trend and should record growth rates exceeding the trend in the future. This is one of the reasons for the increasing raw material prices, which will continue their upward trend in 2011.

Earnings and Financial Position

Revenues of the RHI Group increased by 23.1% to € 1,522.9 million in the financial year 2010 (previous year: € 1,236.9 million) and developed differently in the individual divisions as presented below. RHI closed the financial year 2010 with an operating result before impairment losses and restructuring expenses of € 138.8 million (previous year: € 79.0 million). Reversals of impairment losses amounting to € 21.0 million are offset by restructuring costs of € 33.8 million; EBIT thus amounts to € 126.0 million (previous year: € 54.8 million). The restructuring costs include cost related to the closure of plants in Chile and Canada as well as provisions for valuation adjustments for technical equipment and machinery of a raw material plant in 2011.

Revenues by industry



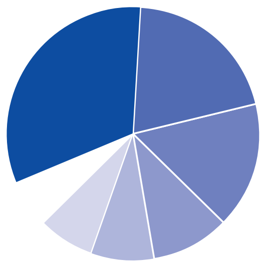
- 64% Steel
- 13% Cement/Lime
- 9% Nonferrous metals
- 8% Glass
- 4% Environment, Energy, Chemicals
- 2% Raw materials

In the Steel Division, the development of revenues in the year 2010 was characterised by a strong recovery of the steel industry in Europe and the USA. In comparison with the previous year, revenues increased by 38.9%, from € 703.6 million to € 977.3 million. The operating result margin, at 6.4%, significantly exceeded the prior-year figure of 0.4%, but fell short of the level of 2008 (8.0%) due to a massive increase in raw material costs. EBIT amounting to € 61.7 million (previous year: € (6.7) million) corresponds to an EBIT margin of 6.3% (previous year: (1.0%)).

As the activities of the Industrial Division can be referred to as late-cycle business due to investments, the division's revenue retained the prior-year level and amounted to € 517.8 million. The operating result of € 74.3 million was affected by restructuring expenses and impairment losses amounting to € 13.7 million, which are primarily related to the closure of the plants in Canada and Chile; EBIT thus equalled € 60.6 million (previous year: € 54.2 million); the EBIT margin amounted to 11.7% (previous year: 10.6%).

Revenues of the Raw Materials Division were characterised by good capacity utilisation in the year 2010. In addition to an increase in internal revenues by some 20%, external revenues also rose by roughly 40%, from € 19.7 million to € 27.8 million.

Revenues by region



- 32% Western Europe
- 20% North America (incl. Mexico)
- 17% Asia/Pacific
- 10% Eastern Europe
- 8% Near/Middle East
- 7% South America
- 6% Africa

Cash flow

As a result of the increase in working capital, net cash flow from operating activities amounted to € (12.3) million in 2010, and was thus significantly below the 2009 reference figure of € 202.0 million. Net cash flow from investment activities amounted to € (54.3) million (previous year: € (36.2) million) and included the new tunnel kiln at the Dalian plant, the energy recovery plant in Radenthein, the acquisition of a plot of land in Brazil, part of the capacity expansion of the brick production in China as well as cash payments related to the squeeze-out proceedings at Didier-Werke AG. Net cash flow from financing activities equalled € (18.3) million in 2010 (previous year: € (72.7) million) and was mainly characterised by loan repayments and interest payments.

RHI Group: Cash flow

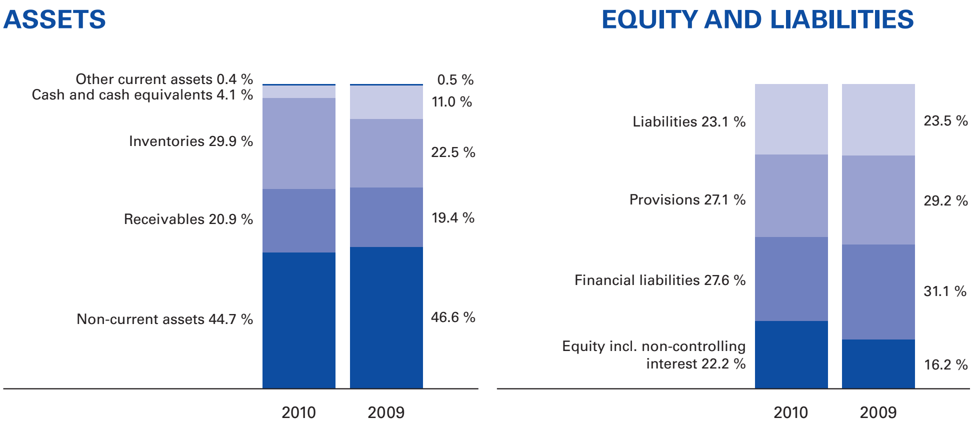
in € million	2010	2009	Change
Net cash flow from operating activities	(12.3)	202.0	(106.1)%
Net cash flow from investing activities	(54.3)	(36.2)	(50.0)%
Net cash flow from financing activities	(18.3)	(72.7)	74.8%
Cash flow	**(84.9)**	**93.1**	**(191.2)%**

Profit Development and Balance Sheet Structure

In 2010, profit before tax from continuing operations increased by roughly 315% to € 104.6 million (previous year: € 25.2 million). The tax rate in the reporting year amounted +0.01 % as additional deferred taxes for loss carryforwards of € 27.8 million were capitalised in the third quarter of 2010. RHI's profit from continuing operations equalled € 104.6 million, after € 21.4 million in 2009.

Due to a change in the accounting method regarding the shares attributable to non-controlling interests ("minority interests"), the financial instruments issued to minority interests by subsidiaries are no longer classified as equity instruments, but rather as financial liabilities. This results in a reduction of the profit attributable to non-controlling interests to € 0.2 million (previous year: € (0.5) million). Hence, the share of the profit attributable to the equity holders of RHI AG amounted to € 105.9 million (previous year: € 20.9 million). Earnings per share based on the average number of the shares of RHI AG issued in 2010 amounted to € 2.63 (previous year: € 0.52).

Balance sheet structure



The balance sheet structure is characterised by a relatively high capitalisation ratio and a long-term financing component, which is typical of the industry. The balance sheet total increased by 13,9% to € 1,448.7 million in comparison with the previous year, which was primarily due to the increase in working capital related to the positive development of revenues in the Steel Division. Trade receivables and other current receivables rose by 23.2%, which corresponds to the increase in revenues. The increase in inventories is attributable to an expansion of business in markets where RHI has no local production, the investment-related production in advance at the Bayuquan plant, China, and the rising demand for raw materials from China.

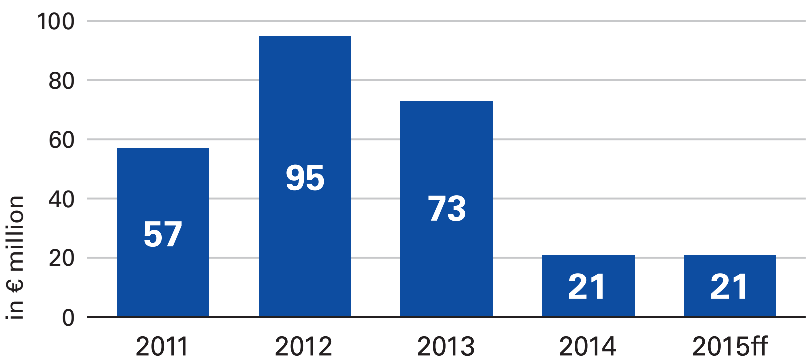
ROIC (return on invested capital), at 14.2%, clearly exceeded the prior-year figure of 5.9%.

RHI improved equity further in the year 2010. As of 31 December 2010 it amounted to € 320.9 million (previous year: € 206.1 million), which corresponds to an equity ratio of 22.2% (previous year: 16.2%)

The consolidated statement of financial position as of 31 December 2010 shows financial liabilities of € 399.8 million, of which € 26.0 million is attributable to the change in the recognition of minority interests. After the deduction of cash and cash equivalents of € 58.8 million, net financial liabilities amounted to € 341.0 million (previous year: € 255.9 million). Net financial liabilities roughly correspond to twice the EBITDA of the year 2010. The gearing ratio improved in comparison to the balance sheet date of 2009, from 124.2% to 106.3% on 31 December 2010.

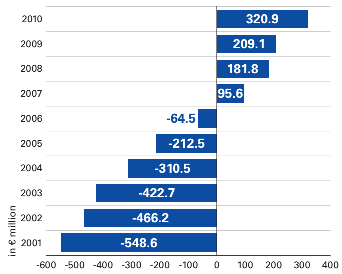
56.7% of the liabilities to banks have a term between one and five years; the remaining part of 43.3% is due in less than one year. As of 31 December 2010, 64.8% of the liabilities to banks carried a fixed average interest rate of 3.1%; the remaining portion of 35.2% carried a variable interest rate of 2.5%.

The repayment structure of the most important loans as of 31 December 2010 is shown below:



As of 31 December 2010, RHI had unused credit facilities of € 92.8 million with Austrian and foreign banks, and a line of credit from the sale of receivables amounting to € 100.0 million, of which roughly 66.0% was used.

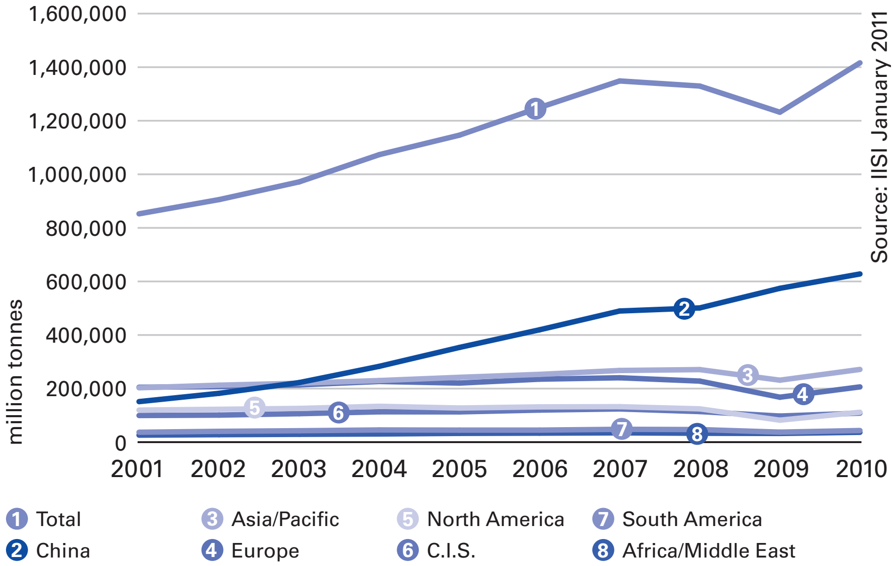
Equity development



Steel Division

After steel output had declined by 8% worldwide and by more than 20% outside of China due to the crisis in 2009, the year 2010 was characterised by a worldwide recovery. In 2010, world steel output increased to around 1.4 billion tonnes, up roughly 15% on the reference year 2009. With the exception of China (+9.3%), all regions of the world recorded double-digit growth rates, with North America (+35.7%), the EU27 (+24.6%), Asia excl. China (+17.3%) and South America (+15.9%) standing out in particular. These regions are roughly 5% below the pre-crisis levels of 2008.

World steel output



Revenues of the Steel Division rose by nearly 39% year-on-year, thus clearly exceeding the development of world steel production. This is primarily attributable to the disproportionately strong market position in the developed countries. RHI's Steel Division even managed to surpass the revenues of the year 2008 by 2%. Capacity utilisation of all plants of this division exceeded 90% throughout the entire year. The operating result, at € 62.7 million, was significantly higher than in 2009 (€ 2.7 million); the operating result margin of 6.4% suffered from the prices of Chinese raw materials and graphite, which soared during the year. Due to pricing agreements for 6-12 months, the increased input costs are gradually passed on to the customers; this process should be completed in the year 2011.

Segment indicators

in € million	2010	2009[1)]	Change
Revenues	977.3	703.6	38.9%
Operating result	62.7	2.7	2,222.2%
Operating result margin	6.4%	0.4%	1,500.0%
EBIT	61.7	(6.7)	1,020.9%
EBIT margin	6.3%	(1.0)%	730.0%

1) after reclassification

In the year 2010 RHI again extended the share of Full Line Service contracts. With this model, RHI fully or partially assumes the refractories management of steelworks. RHI no longer charges the quantity of refractory materials and service, but rather an amount per tonne of steel based on the output of the unit or the steelworks.

EMEA

After a very strong first half of the year, business in Western Europe slowed down slightly in the second half. In Germany, a converter of an important customer posted a durability record based on an RHI recycling concept, which is trend-setting in terms of the sustainable use of raw material. Eastern Europe developed contrarily to Western Europe: while the first quarter was still weak, a recovery was tangible afterwards; however, the pre-crisis levels were not yet matched. Thanks to its strong market position and technology leadership, RHI was a preferred supplier for new steel mills in the year 2010. Three new customers were won in Southern Europe, giving us reason to expect further business in the coming years. A positive development throughout the year was recorded in the countries of the Middle East, where RHI hopes for this trend to continue as new steelworks will be commissioned.

North America

RHI participated in the strong recovery of the North American market in 2010 and increased revenues by more than 40%. In addition to significant growth in sales volume and revenues, profitability also rose. Moreover, RHI managed to build long-term partnerships with customers on the basis of new Full Line Service contracts. Despite import disadvantages there is still good potential in North America. The focus on providing steel customers with optimal solutions and thereby generating long-term partnerships will be maintained.

South America

RHI managed to increase revenues in Brazil and Argentina, the largest steel producers in the region, by more than 70% in comparison with 2009. This was possible above all due to the conclusion of Full Line Service contracts and long-term supply contracts with important key accounts. In addition, it was possible to obtain certification for some RHI products in this region, which could lead to positive effects on future business.

Apart from a massive increase in steel imports (+150% compared with 2009) from India, China, Turkey and South Korea to Brazil, natural disasters such as the earthquake in Chile and a storm in Brazil as well as the energy crisis in Venezuela had a negative impact on customers in this region.

Asia/Pacific

In the Asia/Pacific region, RHI managed to grow substantially faster than the market, especially in the first three quarters of 2010. A good sales development was recorded especially in India, Taiwan and Korea, where major Full Line Service contracts were concluded. In the fourth quarter, competition with cheaper refractories producers from China intensified, which led to a slight decline in sales.

China

The RHI Steel Division managed to increase its revenues in China in 2010 by roughly 30% compared with 2009. The market is driven by local competition, and massive pressure on prices is expected to continue.

Industrial Division

In 2010, revenues in the Industrial Division, where business is largely characterised by the investment cycle, roughly equalled those of the year 2009. In general, the focus in the core markets was primarily placed on the repair business in 2010. It was only in the last few months of the year that new projects picked up again.

Segment indicators

in € million	2010	2009[1)]	Change
Revenues	517.8	513.6	0.8%
Operating result	74.3	64.6	15.0%
Operating result margin	14.3%	12.6%	13.5%
EBIT	60.6	54.2	11.8%
EBIT margin	11.7%	10.6%	10.4%

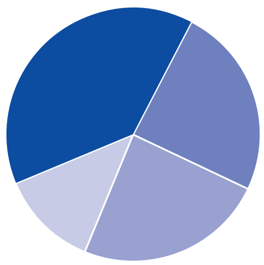
1) after reclassification

Cement/Lime

In the year 2010 demand for cement and lime again varied considerably according to region. However, with few exceptions, business bottomed out in the course of the year and an improvement of the sales situation is in sight. Compared to the previous year, revenues rose by 15%.

In Western Europe and the USA, the crisis in the construction sector was still noticeable in 2010. While a slight recovery was recorded in Western Europe, cement sales have not yet bottomed out in the USA. Despite the prevailing market climate, RHI improved refractories sales in both regions in 2010.

Revenues by industry



Although no recovery was foreseeable in the Eastern European cement industry at the beginning of the year, the downward trend was stopped in the second quarter. Subsequently there were clear indications in Russia and Eastern Europe that more cement would be needed. New projects, which had been postponed during the crisis, were resumed and the demand for repair material also increased significantly.

China and Brazil again stood out as the growth regions for cement in the year 2010. New building activities resulting from infrastructure projects in South America caused demand for refractories to increase significantly. In Brazil, RHI managed to supply refractory materials for a new cement kiln for the first time.

Demand for high-quality refractory products in China continues unabated. As a result, the third tunnel kiln at the Dalian plant reached full capacity utilisation shortly after being commissioned in the third quarter of 2010.

In 2010 RHI's lime segment successfully held its ground as the dominant market leader worldwide. Fierce competition in Europe was offset by the successful acquisition of new markets.

The lime segment benefited above all from the rapid and significant recovery in the Near and Middle East and South America in the year 2010. A very strong first quarter of 2010, which was due to projects stopped in early 2009 and resumed in the last quarter of 2009, was followed by a balanced second and third quarter. The markets in North America, Western Europe and the CIS did not pick up significantly in 2010.

Glass

In the year 2010 the global glass market recovered slightly in comparison with the crisis year 2009; however, the pre-crisis business volume was not reached yet.

On a global scale, new and repair projects in the container glass segment were at a low level and varied regionally. While the CIS experienced a recovery, the situation remained difficult in Europe. The container glass market is still undergoing a phase of consolidation. The world's largest manufacturer of glass packaging improved its position further by takeovers in China and Brazil.

The most significant recovery was to be seen in the flat glass segment. Glass tank capacity utilisation increased again and repair projects were initiated. The Chinese flat glass market was practically unaffected by the crisis. Independent from the global situation, the public economic programmes led to an intensive investment programme in flat glass plants. In addition, the trend towards higher quality production lines, for example oxy-fuel tanks, continued in China. Investments in new plants were also announced in the other BRIC states.

The TFT/LCD market continued to grow strongly in the year 2010. There are signs indicating that the market is shifting towards China in terms of both production and demand. The flat glass market has recovered although the situation in the largest market, the USA, is still difficult. China will soon overtake the USA regarding demand and production in this segment as well.

The positive trends in the primary market have not had an impact on the refractories market yet; this is expected for the year 2011. Year-on-year, refractories revenues of RHI's glass segment in 2010 were roughly 20% below the figure of 2009. The situation was especially difficult in Europe, where market activity was low; however, this was partially offset by good business in China. Interesting and trend-setting contracts were concluded with the special glass industry. A positive contribution was made through the acquisition of the Russian refractories manufacturer ZAO Podolsk Refractories, which enabled RHI to expand its position in the Russian market. In late December, a contract regarding the complete takeover of the company was signed.

Nonferrous metals

Following a sharp drop in the price of nonferrous metals during the economic crisis, the metal exchanges picked up considerably in the year 2010 and almost reached a historic high for copper at the end of the year. The prices of nickel, lead, zinc and aluminium also rose significantly, but did not match the pre-crisis levels yet.

This positive trend triggered a revival of the capital-intensive project business, but also the repair-related third-party business began to stabilise throughout the year and nearly reached the pre-crisis level. In addition to postponed major repairs in the copper and ferronickel segments, some new plant projects were also recorded. Apart from the traditional copper and nickel regions, demand primarily came from the BRIC states, where projects that had been stopped in late 2008 were gradually resumed. In the nonferrous sector, above all China showed a very positive development in 2010: on the one hand, copper projects, which had been acquired in the past years, had a positive impact on third-party business due to first repairs and, on the other hand, important new projects were won.

In the lead industry, a positive increase in capacity is recognisable in the USA, Central America and Asia, particularly in recycling, which has already had an effect on RHI's order books.

Despite the upward trend of aluminium prices, declines in revenues had to be accepted due to tremendous competitive pressure; profitability, which is as such lower than in the rest of the nonferrous metal business, was optimised through selective market penetration.

With only few exceptions, RHI materials were used for major repair work on key units of the copper industry, which are traditionally non-cyclical and were slowly restarting in 2010, and on important ferronickel units. This is not least attributable to the overall key account concept: the company is able to supply high quality globally, which is increasingly important in view of growing competition.

Although the record sales and revenue levels of the years before the crisis were not reached in 2010, both the relative and absolute contribution to earnings significantly exceeded the figures of the previous year, which means a further increase in profitability of this segment.

Environment, Energy, Chemicals

2010 was still characterised by postponements of planned new plant projects in the environment, energy chemicals segment. The projects stopped by customers and plant manufacturers during the crisis must now be relaunched, which generally requires a lead time of 12 to 24 months. For this reason RHI was unable to realise all of the planned deliveries for new construction projects. Fortunately these delays were more than compensated by intensifying the service business. For some new plants, which are already under construction, RHI successfully implemented the complete service package including engineering, installation of refractories and drying.

Once again, the development showed strong regional differences in 2010. Western Europe fell slightly short of expectations while all other regions developed above plan, with the strongest impetus coming from Canada and the Middle East.

In the chemicals segment, further progress was made in the specification of RHI products for well-known oil and gas companies and engineering firms.

In the second half of the year and in the fourth quarter in particular, the number of project inquiries for new plants increased substantially. An oil price around USD 90 makes investments in so called difficult oil & gas projects attractive again. In many regions, growing environmental awareness leads to increased investments in plants in the environmental segment, where RHI is excellently positioned.

Raw Materials Division

The central task of the Raw Materials Division is to supply the Steel and Industrial Divisions with raw materials on a sustained basis. These materials are purchased externally or produced at RHI's plants and are sold internally on the basis of market prices. In addition, the Raw Materials Division sells caustic, sintered and fused products to third parties if it represents a profitable supplement to the core business.

The plants of the Raw Materials Division comprise the three Austrian sites Breitenau, Hochfilzen and Radenthein, the Eskisehir site in Turkey, Isithebe in South Africa and the Dashiqiao plant in China.

Revenues of the Raw Materials Division totalled € 165.2 million in 2010 (previous year: € 135.1 million); of this total, € 137.4 million (previous year: € 115.4 million) were accounted for by the RHI Group and € 27.8 million (previous year: € 19.7 million) by external customers. The operating result of this division amounted to € 1.8 million; EBIT equalled € 3.7 million (previous year: € 7.3 million).

Segment indicators

in € million	2010	2009[1)]	Change
Revenues	165.2	135.1	22.3%
External revenues	27.8	19.7	41.1%
Internal revenues	137.4	115.4	19.1%
Operating result	1.8	11.7	(84.6)%
Operating result margin	1.1%	8.7%	(87.4)%
EBIT	3.7	7.3	(49.3)%
EBIT margin	2.2%	5.4%	(59.3)%

1) after reclassification

As a result of intensive market cultivation, raw material sales to third parties were increased by 32% compared to the previous year, from roughly 88,000 tonnes to 116,000 tonnes in 2010.

As demand developed positively both internally and externally, RHI's raw material plants ran at nearly full capacity. RHI's own production of roughly 700,000 annual tonnes corresponds to a backward integration of just over a third for magnesitic raw materials. In the medium term the strategy of the Raw Materials Division aims to increase backward integration to some 80%. As a first step in this direction, a capacity extension by roughly 80,000 tonnes in Eskisehir was initiated. Further projects, ranging from the Greenfield approach to long-term cooperation projects, are currently being developed.

The price increase of purchased raw materials, which is driven by demand and was already tangible in the fourth quarter of 2009, continued in the reporting period. As a result, some raw materials surpassed the price levels of the record year 2008 by the end of 2010. This price development was additionally fuelled by China's restrictive export policy. The current situation underscores the importance of the company's increased backward integration.

Energy, the Raw Material Division's main cost factor, has recorded a price increase of roughly 10% since mid-2009, which was primarily attributable to greater demand. The oil price, which had risen significantly in 2009, flattened in the first half of 2010, but prices picked up again in the second half of the year. Natural gas experienced a moderate development. The power spot market of the Leipzig Energy Exchange, EEX, was characterised by growing volatility and a substantial price increase towards the end of the year. In line with the economic development, power consumption in Europe rose again significantly after its low in 2009. This also applied to RHI.

The measures for further development of the Dashiqiao plant scheduled for 2010 were implemented and contributed to stabilising processes and improving competitiveness. Further optimisation measures and a growing need for raw materials at RHI's plants in China will increasingly strengthen the position of this site in the years to come.

At the raw material sites in Austria, significant investments were made to reduce emissions in accordance with IED requirements.

In Eskisehir, a production record was realised in 2010 with a production volume of 183,000 tonnes of sintered products. To increase backward integration, planning for a second rotary kiln was completed in the reporting period. This kiln is scheduled to start operations by mid-2012 with an additional production capacity of 80,000 tonnes.

The main challenge this division will be faced with in the coming years will include increasing production and productivity as well as raising the level of backward integration to the planned 80%.

Outlook

Overall, RHI expects an increase in revenues of approximately 5% for the year 2011 based on the generally positive economic forecasts. Sales growth will be driven by the Industrial Division, which received positive signals from all customer industries in the fourth quarter of 2010. In the highly competitive steel segment, the focus will lie on defending existing market shares due to necessary price increases in the developed markets. Therefore, the Steel Division's contribution to growth in revenues will largely stem from the planned price increases.

Currently RHI is unable to estimate the effects that the political turmoil in North Africa and the countries of the Near and Middle East at the beginning of the year 2011 will have on the further business development. In the year 2010, these regions accounted for less than 7% of revenues, equally distributed between the Steel and Industrial Division.

Steel

Forecasts for the steel production in the EMEA region project a growth rate of 3% in Western Europe and of 7% in the Near and Middle East as well as in Central and Eastern Europe in comparison with the year 2010. Due to RHI's strong market presence in these regions, growth should be possible, but will be curbed by the massive rise in the cost of basic raw materials in 2010 and the related price increases. Despite the difficult competitive situation in Europe it should be possible to defend market share in all units and to concentrate on profitable business developments with the main customers in both the traditional core business and the expanding ISO unit business.

In South America, and in Brazil in particular, RHI expects additional potential for business due to existing contracts and to the technical certifications which were obtained for some RHI applications in 2010.

The objective is to expand business further in this region and to serve customers with local production capacity as of the year 2013. In December 2010 ThyssenKrupp commissioned a second furnace, which will have an additional positive effect on production levels.

In general, steel output is expected to increase further in Asia. As local competition is strong and price increases have become necessary because of the development of raw material prices, the market share will be defended or increased with service packages.

Industrial

In the cement segment, the winter repair business began at the end of the fourth quarter as expected, causing a significant increase in incoming orders for RHI and the related good capacity utilisation of the plants. RHI's incoming orders reached pre-crisis levels, though with substantial regional differences. Spain, Great Britain and Ireland are still struggling with the economic crisis. In these regions no revival of the cement sales can be expected in the coming years. The cement market shows a similar picture in the USA, where cost-cutting measures have been implemented at the customers' plants as a result of the economic crisis. In the lime segment, newly won markets will be sustainably stabilised in 2011 and existing markets will be defended against growing competition based on RHI's strong know-how and its excellent products. For North America, Western Europe and the CIS, there are first cautious expectations of an increase in business.

The glass industry, which has the longest investment cycle, should have overcome the crisis by the second half of 2011. In addition to the ongoing good market development in China, Europe should also see a recovery in the coming year. RHI still sees good potential in Russia due to the takeover of the Russian refractories producer ZAO Podolsk Refractories, which should be completed by the end of the second quarter.

The upward trend noticeable in 2010 allows an optimistic outlook for 2011 for the nonferrous metals segment. Apart from project and third-party business, which is still going strong, above all the newly initiated transactions in the ferrochrome segment in the CIS for 2011 will represent interesting future potential in a business segment that is relatively new to RHI and will lead to further growth in the nonferrous metals sector.

Raw materials

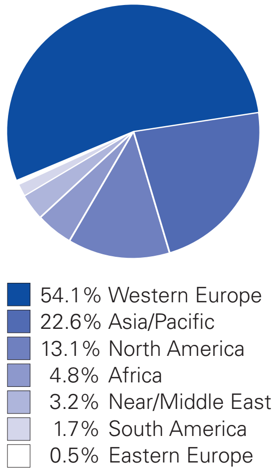
Based on the good order situation in all segments, full capacity utilisation is largely expected for RHI's raw material plants in the year 2011. Moreover, investments will be made in a capacity expansion at the Turkish raw material plant in 2011, which will be completed in 2012 and will produce an additional 80,000 tonnes of sintered material. This capacity extension will, however, not have an effect on the financial year 2011.

Employees

Following the crisis year 2009 and the related downsizing, the task in 2010 consisted of adapting the number of employees to the increased business volume. The number of employees rose from 6,963 to 7,266, which was primarily attributable to an expansion of the workforce in the region Asia/Pacific.

54.1% of the employees working for fully consolidated companies of the RHI Group in the year 2010 were employed in Western Europe, 22.6% in Asia/Pacific, 13.1% in North America, 4.8% in Africa, 3.2% in the Near and Middle East, 1.7% in South America and 0.5% in Eastern Europe. 1,725 people were employed in Austria at year-end 2010.

Employees by region



Equal opportunity is of economic importance not only for ethical reasons, but also due to demographic changes and the related shortage of highly qualified workers. In 2010 a gender representative was appointed, a central office for this issue created and a number of activities were carried out. The objective is to make RHI a more appealing employer both internally and externally.

A comprehensive employee analysis formed the basis of the activities. Consequently, RHI AG placed the focus of its gender activities on making its female engineers more visible in the company and on familiarising women with technical jobs. This was successfully implemented with the help of an information brochure about RHI's female engineers and a related film. Women in technical jobs at RHI give an insight in their technical training and career paths, talk about compatibility of job and spare time and show their position on the status of women in engineering. In addition, the technical role models make great efforts to get girls and women interested for a technical career in industry at career trade fair and at the annual Girls' Day.

RHI AG attaches great importance to equally promoting men and women in order to optimally tap and use the potential of both genders. Targeted training measures are designed to ensure and integrate gender diversity in all segments of the company. RHI AG was one of the first companies in the year 2010 to nominate a female employee to the programme "Zukunft.Frauen" (future.women), an initiative by the Federal Ministry of Economy, Family and Youth, the Federal Economic Chamber and the Federation of Austrian Industries, aiming to promote the establishment of women in management and supervisory board positions.

Based on sustainable health and prevention models and through attractive spare-time, sports and cultural offers, RHI creates optimal framework conditions for a good work-life balance. In this context, RHI offers a series of individual and flexible working hour models with home-office solutions, marginal employment during parental leave, childcare at some locations as well as individual solutions for returning to work after maternity leave.

Training in the RHI Group

As an industry group, RHI AG secures its requirements for young skilled workers and managers in the long term through its successful apprenticeship programme, thus essentially contributing to economic success on a sustained basis. In the year 2010, the number of apprentices, which has always been above average, was increased yet again. RHI attaches special importance to high-quality technical and personality-supporting training. The outstanding quality of apprentice training at RHI AG was shown by 32 Austrian apprentices in 2010, who achieved excellent test results in a practice test of the Federal Economic Chamber.

In order to continue to meet the requirements of the market, an international training programme tailored to RHI's needs was introduced for the sales organisation. In this programme, special importance is placed on dealing with our customers in order to ensure that we live up to our reputation as a competent and reliable business partner. Moreover, a comprehensive training programme for junior management staff of RHI AG was developed in 2010 and will be implemented in 2011.

Performance-based compensation systems

The employees of RHI AG are part of the company's success and jointly responsible for accomplishing its targets. Therefore, part of the compensation often depends on reaching previously defined targets. Depending on the employee's position, these targets are based on the Group's result or the success of individual segments of the Group. Performance-based compensation systems, in which employees can participate in the company's success, enhance individual responsibility for actions and promote team-oriented work.

Dealing with social partners

RHI AG considers its employee representatives worldwide business partners. Dealing with them is always characterised by openness and honesty. This enables RHI to solve even difficult issues together and to the maximum satisfaction of all employees.

Personnel indicators

	2010	2009	Change
Revenues in € million	1,522.9	1,236.9	23.1%
Personnel expenses in € million	345.1	305.5	13.0%
Average annual number of employees	7,260	7,272	(0.2)%
Number of employees at 31.12.	7,266	6,963	4.4%
Personnel expenses in % of revenues	22.7	24.7	(8.1)%
Personnel expenses per employee in € 1,000	47.5	42.0	13.1%
Revenues per employee in € 1,000	209.8	170.1	23.3%
Value added per employee in € 1,000	64.9	49.5	31.0%

Sustainability

RHI stands for sustainable management in all processes and customer requirements. On the one hand, sustainability means responsible management and control of the company keyed to long-term value creation. On the other hand, sustainability refers to dealing carefully with nature and raw materials and to assuming social responsibility and the responsibility towards society. RHI attaches great importance to open and transparent stakeholder management. For RHI, it includes establishing and fostering good relationships and contact with customers, suppliers, investors, employees, politicians, local communities, the media, social partners as well as international organisations and interest groups in the long term.

Integrated Management System

Quality management, environment protection and health and safety at work were combined in an Integrated Management System (IMS) to ensure more efficient control of all company-relevant processes, legal requirements and technical regulations in these areas. An IMS officer for the Group, together with the persons responsible for IMS at the individual locations provides for mapping, maintaining and the continuous improvement of the IMS at all sites, organises internal and external audit and certification programmes, coordinates and supports issues of legal and notification management and is responsible for assessing customer satisfaction throughout the company.

In 2010, a legal audit was performed at all Austrian locations, which dealt with checking legal compliance. The audits performed externally attested a high level of legal security.

Quality management

In 2010, each RHI location was audited for the ISO management systems by RHI IMS auditors, 31 of them according to ISO 9001:2008 and 22 according to ISO 9001:2008 and ISO 14001:2004. 18 locations were audited in accordance with Lloyd's Register Quality Assurance Limited. In order to increase the high level of the RHI auditors further, auditor training sessions were held in Austria, Germany and Mexico. The professional expertise was provided by Lloyd's Register.

In the past financial year, information on customer satisfaction was collected systematically in all Divisions and Business Units using standardised questionnaires. Twice a year product quality, service quality and corporate topics such as sustainability, brand loyalty and criteria for the choice of suppliers were assessed. The results of the survey will be published in the Annual Report 2011.

Environmental management

RHI undertakes great efforts to maximise resource conservation and energy efficiency and to minimise CO_2 emissions in the energy-intensive production of refractory materials. Efficient production not only makes sense from an ecological point of view, but also contributes to saving energy and raw material costs, thus increasing economic sustainability. Compliance with mandatory environmental standards and regulatory requirements are a matter of course for RHI. In addition, RHI's specialists in research and development, engineering and production constantly strive to reduce RHI's environmental footprint beyond legal requirements. The environmental impact is periodically reviewed and evaluated in all organisational units and further targets for improvements are derived from the results.

Quantified environmental targets are defined as part of the certified environmental management system, and their realisation and implementation supervised and checked. Environmentally relevant improvements thus can be measured and reached faster.

More than two thirds of RHI's locations and work places have been certified in accordance with ISO 14001: 2004 by Lloyd's Register Quality Assurance Limited.

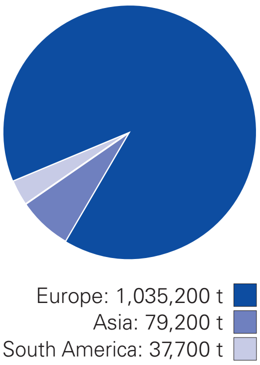
International climate protection

RHI is fully committed to climate protection. Climate change is a global problem that requires global solutions. The EU has already set ambitious CO_2 reduction targets, but other large, global emitters including the USA, China, India and other emerging countries must also make a binding contribution to CO_2 reduction in order to ensure fair competition and to make climate protection sustainable.

European emissions trading system

Production at RHI is subject to the European Emissions Trading System (ETS). Within the third ETS period (2013 - 2020), RHI falls under the Carbon Leakage exemption rules with the three segments magnesia, refractories and doloma. The objective is to protect those sectors which show high trading activities and which would incur high costs by purchasing CO_2 certificates from competitive disadvantages. In December 2010, the European Commission presented a decision regarding the allocation rules of free-of-charge CO_2 certificates, which is now subject to adoption by the European Parliament. RHI actively follows this process as a technology pioneer for the refractories industry.

CO_2 Balance



In 2010, CO_2 emissions amounted to roughly 1.2 million tonnes worldwide. RHI has significantly expanded and refined its monitoring system (integration of smallest emission sources) and also extended it to those locations where it is not required by the authorities. RHI continuously strives to reduce its CO_2 emissions further, but repeatedly encounters limits in doing so. Emissions related to raw materials are inevitable in the production of raw materials and cannot be reduced any further. Magnesite (magnesium carbonate $MgCO_3$) for example consists of 50% magnesium oxide and 50% chemically bonded CO_2. When magnesite is converted to sintered magnesia (magnesium oxide MgO), the CO_2 bound in the raw material is fully emitted.

Energy efficiency

The RHI environment and energy competence centre of the RHI Technology Center Leoben constantly strives to increase energy efficiency in refractories production and to lower energy consumption through continuous measures. Based on energy efficiency analyses, the savings and optimisation potential is analysed systematically and the corresponding environmentally relevant investment projects are developed and implemented worldwide.

Despite full capacity utilisation in production in the year 2010, energy consumption only amounted to 2,593,383 Megawatt worldwide.

Environmentally relevant investments

The significance of environmental protection and energy efficiency at RHI is reflected in the environmentally relevant investments that RHI made in 2010. Of the total investment volume of roughly € 50 million, € 6.5 million were allocated to measures designed to improve the environment. The most important projects were implemented in the areas of waste heat recovery and energy reduction.

In Dalian, China, a new waste heat concept was implemented in the course of constructing the third tunnel kiln. Based on first computer simulations, an optimisation of the tunnel kiln cooling zone was developed. Moreover, the additionally blown in air is re-used as a source of energy and the excess air is used for water treatment. The hot water is used for the sanitary facilities at the plant, but the main part is used to operate machinery. As a result of this project, 2,317 tonnes less of CO_2 were emitted thanks to the savings in fossil fuel in 2010.

In Trieben, Austria, a special heat recovery process is used to recuperate energy for the tunnel dryer and for impregnation, so no natural gas is used. Moreover, the waste gas of the tunnel kiln is used to produce hot water.

In Bayuquan, China, one of the two tempering kilns was re-installed and a common thermal afterburner installed for the purification of exhaust gas, which is equipped with heat exchangers. The energy recovered from the heat exchangers is sufficient to supply the new tempering kiln 100%.

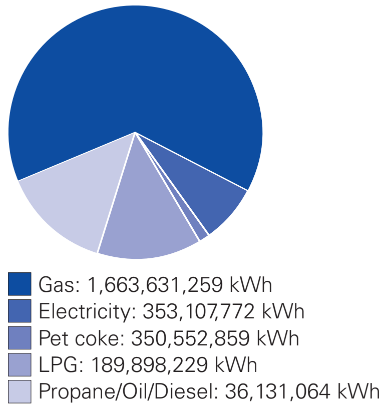
In 2009, RHI started the project "Stretchhood packaging – refractories optimally packaged" at two pilot plants. In 2010, this initiative was successfully carried out by implementing eight plant projects. A new and innovative packaging solution with an intelligent film to safeguard transport enables the customer to reduce waste. It is easy to handle and provides the best possible protection for the delivery of products to the customer. Since its introduction, more than 300,000 packages were delivered to over 990 customers in more than 90 countries. In the two pilot projects in Breitenau and Duisburg, more than 180 tonnes of packaging material and more than 30,000 cubic meters of gas were saved per year. A similar reduction is to be expected at the other RHI plants. The Breitenau project was considered by the Austrian initiative to prevent waste for this environmentally friendly packaging solution.

Duisburg realised an increase in the rate of recycling through pure dust recuperation based on the use of smaller, decentralised dedusting systems.

In Marone, Italy, RHI eliminated low level odour nuisance from production through extraction and containment.

In the year 2010, RHI recorded a waste volume of 27,369 tonnes. Only some 12% of this waste is classified as dangerous according to ÖNORM S 2100 Waste Catalogue. Dangerous waste includes used oil, fats, industrial sweepings and sand catcher residues.

Energy distribution by source 2010



in tonnes	Europe	Asia	America	Africa
Waste (non hazardous)	18,576	2,235	2,067	1,620
Waste (hazardous)	1,754	648	68	400

Recycling

In its "European Raw Materials Initiative", which was initially published in 2008 and adapted at the beginning of the year 2011, the European Commission defined resource efficiency and recycling as one of the three pillars for European industries to secure raw material supply in the long term. Intensified recycling measures are to accomplish an improvement in waste management in order to minimise the outflow of valuable and important secondary raw materials from Europe to third countries.

The use of secondary resources is also gaining significance in the refractories industry: this is on the one hand due to continuous price increases for raw materials, limited availability (e.g. export licenses) or regulatory framework conditions; on the other hand, increased use of recycling materials corresponds to RHI's concept of sustainable use of resources, reduces costs, but above all the ecological footprint and improves the environmental balance – also for the customer. Enhanced cooperation with recycling companies, which break out the revert materials, leads to the use of selected materials; moreover, a comprehensive approach can be chosen which supports the idea of a zero waste concept.

RHI was one of the first refractories suppliers to deal with the topic of recycling in the 1990s and started – to a lesser extent – to treat MagCarbon converter bricks from the steel industry for recycling. Until today, one of the main challenges the research and development department deals with is to realise the required consistent quality based on secondary raw materials. This work is based on secondary raw material concepts adapted to products and production sites. This know-how has enabled RHI to re-use nearly all refractory revert materials, which are used in the steel industry. In addition, refractory revert materials from other industries, such as the glass industry, are also used.

The share of revert material used in the past financial year amounted to 80,000 tonnes (2009: 55,000 tonnes), which corresponds to a recycling share of 4.4% in production.

Transport and logistics

All logistics activities are controlled by the Leoben and Vienna offices. For many years, RHI has developed targeted and comprehensive activities as part of logistics management in order to use all means of transport as economically and efficiently as possible, while at the same time saving resources. In the year 2010, freight in the outbound segment increased by 20% in comparison with the previous year. The portion of rail freight was increased further in comparison with goods transported by truck in 2010. In the inbound segment, rail transport has proven to be the economically more efficient solution as compared with sea transport, especially on routes from China to Europe. Overall, roughly 33,000 tonnes of raw materials were transported by the Trans-Siberian Railway for the plants in Austria. 80,000 tonnes per year of raw materials supplied from Turkey are carried by rail directly to Austria.

Moreover, roughly 120,000 tonnes of raw materials are delivered to Austria and Germany from the north and south harbours in post-carriage and by European suppliers. The portion of deliveries by train in European continental shipping was increased from 27% in 2009 to 33% in 2010.

Recultivation

The RHI mines in Austria, Italy and Turkey have provided the most important resources for RHI's refractory products for over 100 years: magnesite and dolomite. State-of-the-art and sustainable methods and processes are employed in order to get the best economic, and especially the best ecological use out of the mines, thus securing availability for the generations to come. In open-cast mining, which is applied in three of five mines, the recultivation of near-natural habitats is of great importance: stable, re-forested soil provides for safety and often also means a new diversity of species in fauna and flora. RHI's activities go beyond the legally defined minimum – not only in mining, but also around production sites. The following projects represent examples of RHI's extensive recultivation measures:

>> Reforestation and recultivation measures at the dolomite mine Marone, Italy.
>> Ongoing recultivation of the mine on Weißenstein in Hochfilzen, Austria.
>> Continuation of creation of green areas around the Ramos Arizpe plant, Mexico.
>> At the site in Veitsch, Austria, the successful reforestation project of the former mine was continued: more than 2,000 bushes and trees were planted in cooperation with the local forestry school and the local school.

Social responsibility

As a Good Corporate Citizen, RHI takes social responsibility at all locations by carrying out projects that make a positive and sustainable contribution to improving living conditions. The projects and sponsoring activities address the areas of health, fighting poverty, education and sports. RHI supports communities and non-profit organisations such as the Red Cross. Further examples include:

>> Support of international organisations as part of disaster relief programs for Haiti with a considerable sum (e.g. the United Nations).
>> The Austrian sites focus on supporting sports for young people and school sports, on promoting culture and education, for example language weeks for students. With respect to university education, Technology Center Leoben (TCL) continued its long-standing cooperation with the University of Leoben and supported symposiums and events, organises excursions for students and grants "internship cheques", which provide financial support for students during their education. Language weeks for students were supported by the Veitsch site. The partnership with SOS Children's Villages, which has been ongoing for many years, was continued with donations by employees and the company in 2010.
>> The support of local volunteer organisations such as ambulances and fire brigades represents support on the local level by RHI sites.
>> In Germany, activities mainly focused on projects supporting disadvantaged groups, for example by donations to people in need, such as children or older people without means and socially disadvantaged families, and to employment projects in retirement and nursing homes. Moreover, the German sites supported institutions which provide free food to people in need. Social activities also included supporting disabled people by using products from sheltered workshops and projects helping ill or injured children.

- >> In Turkey, RHI's Eskisehir site promotes social and health-relevant projects as well as projects and awards that motivate students to protect the environment.
- >> The Italian site in Marone concentrated on providing support for social institutions in the community in 2010, supported health research projects and at the same time set up an important social fund for employees, which covers health expenses.
- >> In Spain, the local RHI organisation supported the city's most important cultural events to maintain customs and traditions – by means of financial assistance, but to an event greater extent through the participation of the organisation's employees.
- >> The support of projects of the Red Cross in disaster management as well as donations to and organisation which makes free-of-charge operations possible for children with heart disease form the basis of Corporate Citizenship of RHI's Ramos Arizpe site in Mexico.
- >> In China, RHI concentrates on projects aiming to fight poverty of students and the rural population in the vicinity of its sites.

Health and safety at work

As competitive pressure increases, the health of employees becomes a key resource of sustainable companies and organisations in all industries. Only a sustainable health and safety at work policy protects and promotes the safety and health of employees in the long term, maintains their employability and increases their performance. Therefore investments in sustainability are worthwhile for all those involved – equally for the company and its employees.

The objective of Health & Safety (H&S) Management at RHI is to develop – against the background of a working environment that changes constantly and increasingly rapidly – new tools, methods and measures that characterise modern health and safety at work. These measures were tested at individual sites of RHI AG in 2010 and implemented at plants worldwide. RHI thus has a health and safety policy that withstands change processes and persists on a sustained basis.

Health and safety at work can only be successful in the long term if it is integrated into the structures and processes of the company. As part of the integrated management system, the health and safety at work segment prevents disruptions of operational procedures, for example caused by accidents, work-related illness or events of damage, and makes a contribution to the financial success of the company. Moreover, the RHI H&S management system also improves legal security in terms of responsibility vis-à-vis employees, customers, and the authorities.

Being a global company, RHI has been dealing with different values regarding safety and health, different behaviours, expectations and needs in the individual countries and markets where the company is present. At all locations worldwide – regardless of their size – we therefore attach great importance in H&S management to the sustainability of measures to ensure holistic workplace health promotion, which form part of the corporate culture. Processes have been implemented in order to ensure the active participation of all employees in operations from the beginning according to a systematic analysis. They equally comprise clear targets and realistic, integrated measures with the corresponding responsibilities and budgets. The cooperation of internal experts such as company doctors, safety experts, personnel department and development, works council or communications and, as required, external support through accident insurance, health insurance and external consultants contribute essentially to the success of the measures. Use of the participatory health management processes for systematic learning processes and for changes in behaviour in terms of health is the key to a long-term successful H&S policy at RHI.

The measures taken to date have attached special attention to both ergonomic and safe design of the work place and to the prevention and minimisation of psychological stress. Strengthening personal health competence is a focal point in prevention. RHI employees have the option to have a health profile created regularly by occupational medicine as part of the health screening, which is offered on an ongoing basis.

Some new projects were developed in 2010 and implemented in various different locations. One example is an H&S legal decision management system, which keeps the H&S officers up to date on laws and regulations in the area of H&S, so that they can react in time. In addition, all safety liaisons at all locations have to complete an audit in which they have to evaluate three working areas and two of the working areas are defined. In the Health & Safety sector RHI has carried out extensive work-life balance activities for several years. In 2010, employees were given the opportunity to get to know their own stress behaviour by means of biofeedback, impulse test and quality-of-life index according to Elliot and to counteract stress and burdens by increasing resources.

As part of the project "I AM – Information as Motivation", apprentices evaluate their workplace, prepare an analysis and take measures together in order to eliminate potential risks. Projects for young employees who are still undergoing training in the company – and exchanges in particular – have traditionally had great importance. The following projects only represent a few examples:

"RHI-On-Tour": for four years, German RHI apprentices are given an insight into the working world at other RHI sites in Europe as part of a programme of several weeks. The young colleagues work on projects with experienced colleagues and gain new personal perspectives as regards contents and language far away from home. In 2010, seven apprentices spent three weeks at the plants in Clydebank, Scotland and in Marone, Italy. These projects were supported by „Leonardo da Vinci", a promotion programme of the European Union, which provides, amongst other things, funds to support projects for initial training.

"Money and fire": apprentices from the refractories sector swapped their job with apprentices from the service sector (bank) for a few days, gaining new knowledge and views and widened their social competence. Within presentations, tests, workshops and developments of work pieces they saw new perspectives in the working environment. The opinions and experiences of the young people were recorded in comprehensive questionnaires, evaluated and rated excellent. Started as a pilot project, this initiative is to be extended to other locations in the future.

The site in Hochfilzen, Austria, received an award for its extensive activities in training and further education of apprentices.

It goes without saying that all programmes that have been running for several years were continued and many employees participated. They include health forums, back school, healthy diet (fruit free of charge, healthy menus), safety days, sports programmes (such as the RHI Marathon), and the pro-fit week for all employees.

Many national and international awards reflected the successful path that H&S management has taken in the RHI Group in 2010, for example the quality certificate for workplace health promotion for the years 2010-2012. RHI again received the "MOVE Europe" prize of the European Union for companies that have managed to integrate a healthy lifestyle into everyday work life in an outstanding way. RHI won this award for the project "Work in tune with life", a work-life balance project with biofeedback measuring, pulse test and quality-of-life index.

RHI has attained an excellent position in the area of Health & Safety through a continuous learning and improvement process, comparisons and the exchange of experience. RHI aims to strengthen this position and expand it further in the interest of all employees and a sustainable company development.

Research & Development

Strategic focus

After the crisis, the research and development segment of RHI is geared even more strongly than before to intensifying a communication network cluster, which was initiated in the past years. Communication on a daily basis between university and extramural research institutions in Europe, leading international university institutes and the RHI Technology Center in Leoben, which celebrated its 50-year anniversary in 2010, is a core element for the exchange and cooperation of scientists. Linked with this information and communication system, the current integration of key customers in all customer industries was completed, thus closing ranks between theory and practice in the interest of more rapid and more profound product development. The clearly noticeable effects are even faster response times in production development and a further improvement in the level of knowledge of ceramic and wear-specific mechanisms and processes in the interaction between refractories and their area of application.

Environmental and energy efficiency

RHI is committed to a sustainable environmental and energy policy, which is reflected in research and development through the intensive continuation of a series of measures aiming at efficient use of energy and consistently avoiding technologies and product ingredients which are problematic or questionable from an ecological point of view. With respect to the energy issue, special technologies aiming at consistent energy savings were developed under the leadership of the RHI Technology Center in close cooperation with the respective production sites and external specialists. Major steps were taken in the area of drying and firing processes; these efforts will be advanced further in the future. In the near future, the focus of activities aiming to avoid environmentally critical substances will be placed on a further improvement of the overall system for recording, recycling and refining of secondary raw materials, which are generated internally, and those from customers worldwide. Of course activities regarding the replacement of all environmentally relevant product ingredients including technical resources will be continued, even though an extremely high standard has already been achieved in this area.

The declared objective of the technology leader strategy is to let the internal team of more than 150 international researchers and developers work on topical problem solutions and fundamental topics of refractory technology in close cooperation with nationally and internationally renowned university institutes as well as extramural research institutions. This way, further basic knowledge will be created and the company's future will be secured in the long term.

As in the previous years, the most important objectives include:

- Development of trend-setting natural and synthetic raw materials with a view to backward integration, which is relevant to the corporate strategy.
- Development of solutions for all our costumer industries, which are relevant to both refractory products and processes.
- Continuous further development of production technologies for basic materials, intermediate and finished products, also looking into entirely new technologies.
- Development of new processing machinery and easy-to-process lining methods with a view to the field of tension user-material-machine, which is relevant to industrial safety.

- >> High-temperature sensor technology for stress and wear analysis and to increase operational safety of our products when used in systems.
- >> Thermodynamic, thermophysical, chemothermal and fluid dynamic modelling and simulation methods, which support the product development process, show our products in various customer processes in operation and support the design of products and the engineering of linings.
- >> Basic studies in thermomechanics, thermochemistry and corrosion of refractory products in operation.
- >> Optimisation of the environmental impact in the production and application of refractory basic materials and finished products.
- >> Use of scrap materials after their use in operations.
- >> Development of new, non-destructive test methods for finished products.

For several years now, research and development has played an important role within the introduction and implementation of the REACH regulation (EC No. 1907/2006, "Registration, Evaluation, Authorisation and Restriction of Chemicals") of the European Union. On the one hand, all registrations of chemicals are centrally controlled and carried out by R&D; on the other hand, RHI looks for alternative substances to chemicals which are no longer permitted for use in the EU after the implementation of the regulation or are considered critical; alternative substances are tested for their usability in RHI's products.

In 2010 RHI's patent portfolio was strengthened by a number of newly granted patents. The active management of intellectual property in the form of patents and trademarks contributes to internationally protecting product lines and is a benchmark of technology leadership in the area of refractory materials, linings, and technologies.

R&D performance

R&D projects conducted in the reporting period led to the following results:

- >> Development of new binder systems in the area of non-basic casting mixes, which enable easier processing of mixes for the customer. As components dry faster, the shutdown times of the plants are reduced. A more ductile grain structure reduces crack sensitivity in use and thus extends useful life.
- >> Development of an innovative production technology designed to manufacture large-size and highly complex shape geometries, above all for applications in the glass industry.
- >> Baseline studies on the topic non-destructive testing methods for refractory products were conducted successfully, tests of the applicability of these methods were completed, and their large-scale introduction is currently being planned or implemented.
- >> The development of customised basic hot gunning mixes taking into account different customer requirements and the changed availability of raw materials has been concluded successfully.
- >> The development of a user-friendly hot flow mix for steel converters on the basis of environmentally friendly and workplace-hygiene relevant bonds was successfully completed.

- In the area of magnesia carbon bricks for the steel industry, a new ecological, REACH-compliant standard was established. With the development of bonds made of synthetic carbon binders, a bond system consisting of high-polymer components classified as "non-toxic" is available for the entire product line.
- Resin-bonded magnesia carbon bricks were developed further to reduce crack sensitivity through controlled thermal expansion and higher stability against thermal fatigue as well as increased resistance to oxidation.
- Development of technologies to enable the use of increasing quantities of carbon and resin bonded recycling bricks as a secondary raw material. RHI is at the forefront of progress supporting the customer industry in significantly reducing emissions in steel production.
- Development of high-chrome-content chrome corundum bricks for units subject to especially aggressive chemical environments, such as special waste incinerators or plasma reactors.
- Development of high-chrome oxide magnesia chromite bricks for applications in the lead industry and for special operational conditions in partial quantity degassing vessels in steel metallurgy.
- Development of a novel brick quality for areas of the cement rotary kiln exposed to highest mechanical and chemical stress.
- New and further developments in the area of zirconia-graphite slag bands of isostatically pressed components for casting long runs in continuous steel casting.
- New development of isostatically pressed submerged nozzles for different thin-slab casting plants (steel industry), with highest demands being placed on the refractory materials, on mould-making and on manufacturing technology. The flow-optimised geometries were developed with the support of flow simulations and hydrodynamic tests.
- Further development of "Anti-Clogging" solutions of isostatically pressed products as a partner to "clean steel" producers.

Investments in innovative power

In the reporting year 2010, investments in R&D exceeded 1 % of the Group's revenues – a value absolutely presentable in the industry.

Research and development employees pass on their knowledge to their colleagues from other areas of the Group in numerous internal training programmes, forming the basis for the technology leadership of RHI AG. The latest R&D insights and developments thus benefit our customers worldwide – rapidly and unbureaucratically.

Risk Management, Accounting & Internal Control System

Risk management process

Being a globally operating group, RHI is exposed to a variety of risks, which require risk management throughout the Group. Based on the risk management introduced in 2009, systematic and decentralised risk identification, evaluation and control have created awareness and transparent dealing with risks throughout the Group. Regular assessment of a risk situation and the corresponding information to the Management Board or the responsible business managers make it possible to take controlled risks and consequently use opportunities. Internalised risk management thus represents an essential competitive advantage.

Risk Owners in the operating units and central group functions identify, evaluate and control risks where they occur. Risk Coordinators ensure that identified risks and the measures derived are dealt with in an interdisciplinary manner and across segments. In organisational terms, Central Risk Management is part of the Finance department and is responsible for the risk management process and its further development. It provides uniform methods and tools for the identification and assessment of risks throughout the Group.

Risk identification is supported by the definition of risk areas and categories of risk. Risks are then measured according to their probability of occurrence and potential effect on the EBIT of the unit affected, with the effect of control measures that have been completed being taken into account. With respect to significant risks, a possible effect on cash is also considered. Central risk management summarises the risk situation for the stakeholders of the risk management process for their respective areas of responsibility and provides this information in risk reports on a quarterly basis. The process is supported by a professional integrated risk management software. Risk policy and risk management processes are laid down in a Risk Manual and are available on the intranet.

Significant risks

In the risk management process all risks related to the operating business are considered. The risk areas strategy, sales, production, supply chain, research & development, employees, finance, IT, Compliance & Legal, as well as natural disasters were defined. The following key risks, which may have the greatest influence on the earnings and asset position of the Group, result from the risk analysis:

Risk area: Sales

Steel production: The development in steel production in the markets relevant to RHI has great influence on the profitability of the Steel Division. The RHI Group's clear strategy to expand its market share in the BRIC countries enables the Group to put revenues and earnings on a more widely diversified base.

Competitive situation and market share in the steel industry: Whether the RHI Group is able to generate the planned revenues depends on its ability to prevail over its competitors and to realise identified market opportunities. Based on its technology leadership and an increased focus on the Full Line Service business and high-end system solutions, RHI extends its competitive advantage, thus securing market share in the future.

Risk area: Strategy

Political and legal environment: As a result of the global operations of the RHI Group and the expansion of both production and sales from developed into emerging markets, new risks arise. They are controlled through spreading and monitoring. These measures allow the RHI Group to use opportunities in growth regions.

Risk area: Supply Chain

Development of raw material prices: The RHI Group obtains roughly 50% of its raw materials from external sources and is therefore exposed to price fluctuations in the raw material markets. The expansion of the Group's own production by increasing capacity at existing production sites or based on acquisitions and cooperation (joint ventures) serves to reduce this risk.

Risk area: Production

Availability of production plants: This risk results from possible damage to production plants. This risk is reduced or partially passed on through property insurance, risk audits and maintenance plans.

Financial risks

Financial risks are embedded in RHI's group-wide risk management and are controlled centrally by Group-Treasury. None of the following risks represent a major risk for the RHI Group:

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 Group's financial policy is based on long-term planning and is centrally managed and continuously monitored. The liquidity requirements defined by the planning process are met through the conclusion of appropriate financing agreements. These lines were concluded with different Austrian and international banks in order to guarantee bank independence. The companies of the RHI Group are integrated into a clearing process managed by the central treasury department and subject to financing limits. This reduces the need for external financing at the Group level.

Foreign currency risks arise where business transactions (operating activities, investments, financing) are conducted in a currency other than the functional currency of a company. Decisions regarding the use of hedging instruments are based on the Group's net position in the respective currency.

The interest risk in the RHI Group is primarily related to financial instruments carrying variable interest rates, which may lead to fluctuations in earnings and cash flows. The RHI Group is primarily exposed to interest risks in the Eurozone.

Financial reporting process

RHI has drawn up a detailed documentation of the financial reporting process including the associated risks and the controls used in the respective process step. On an aggregated level, the financial reporting process was defined as a sequence of preparation, consolidation, audit and publication of the financial statements. The documentation was drawn up based on the Group accounting manual. It defines the IFRS charts of accounts and determines the standards for the allocation and entering of business transactions to accounts.

When evaluating the risks of the accounting process and determining the controls, particular attention was paid to those items of the consolidated statement of financial position and of the income statement that might have the most sustainable effects on the financial reporting of the RHI Group.

In order to ensure sufficient communication and knowledge regarding Group standards for internal controls, RHI regularly offers training focusing on different topics. Participation in these trainings is mandatory for employees of all Group companies.

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. In addition, these internal controls are audited regularly on Group level. 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 the 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 and the Supervisory Board receive a report at least once per year. In 2010, three reports were submitted to the audit committee.

Central elements of the ICS include regular audits of compliance with the institutionalised four-eye principle, the separation of duties and defined control steps for the monitoring and control of effectiveness and efficiency of the operating activity (e.g. protection of assets against loss and damage caused by malversation), the reliability of financial reporting and compliance with the legal provisions applicable to the company. In the year 2010, an additional evaluation was carried out to assure internal controls, which will contribute to further consolidation of these essential elements.

The RHI Group's guidelines pertaining to the ICS follow the basic structures 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 2010, the share capital of RHI AG amounted to € 289,376,212.84 (31 December 2009: € 289,376,212.84) and consisted of 39,819,039 (31 December 2009: 39,819,039) 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 2010, one shareholder (MS Private Foundation) to whom more than 25% of the voting rights were attributable was known to RHI. The MS Private Foundation had informed the Management Board of RHI AG on 11 January 2007 that it held RHI convertible bonds and that – after the full conversion of all convertible bonds issued by RHI – it would hold 29.22% of RHI's shares after converting its convertible bonds. The full conversion of all convertible bonds issued was completed as of 10 December 2009.

In addition, two shareholders who held a stake exceeding 5%, which is subject to disclosure, were known to RHI as of 31 December 2010: FEWI Beteiligungsgesellschaft mbH, Germany, to whom more than more than 10% of the voting rights were attributable, Raiffeisen Bank International, Austria, to whom more than 5% of the voting rights were attributable.

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

Authorised capital 2008

The Annual General Meeting of 29 May 2008 authorised the Management Board in accordance with § 169 of the Stock Corporation Act to increase share capital, with the approval of the Supervisory Board and without further approval by the Annual General Meeting, 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 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 agreement with the Supervisory Board. The Management Board was authorised to exclude shareholders' subscription rights with the consent of the Supervisory Board if (i) the capital increase takes place against contributions in kind or if (ii) the capital increase takes place against cash and the minimum issue price of the new shares corresponds to the average of the closing price of the RHI share (ISIN AT0000676903) on the Vienna Stock Exchange of the 30 trading days preceding the day of subscription of the new shares plus a premium of at least 25% or (iii) for fractional amounts.

Authorised capital 2010

The Management Board was authorised by resolution of the Annual General Meeting of RHI AG on 30 April 2010, in accordance with § 169 of the Stock Corporation Act, to increase share capital, without any further consent by the Annual General Meeting until 30 April 2015 – also in several tranches – for a cash contribution by up to € 43,406,425.75 by issuing up to 5,972,855 no-par bearer shares with voting rights and to determine the issue price, the issue conditions and further details regarding the execution of the capital increase.

Employee stock-ownership plan "4 plus 1"

With a resolution of the Annual General Meeting of RHI AG of 30 April 2010, 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 12,000 no-par shares, which corresponded to 0.03% of the company's share capital at the time the resolution was adopted, at 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 as part of the "employee stock ownership plan 4 plus 1". The authorisation is valid for 18 months from the day of the resolution.

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

In the addendum to the restructuring agreement made with RHI's consortium of banks in January 2007, the following 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."

No compensation agreements have been concluded between the company and the members of its Management and Supervisory Board or employees in case of a public takeover bid.

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.

Material Events after the Balance Sheet Date

No material events took place after the balance sheet date.

Vienna, 7 March 2011

Management Board

Henning E. Jensen
CEO

Mark J. Eckhout
CFO

Giorgio Cappelli
COO Steel

Manfred Hödl
COO Industrial

RHI Consolidated Financial Statements 2010

RHI Consolidated Statement of Financial Position 2010

in € million	Notes	31.12.2010	%	31.12.2009	%	31.12.2008	%
ASSETS							
Non-current assets							
Property, plant and equipment	(1)	436.2	30.1	411.2	32.3	426.1	32.2
Goodwill	(2)	14.4	1.0	14.7	1.2	14.7	1.1
Other intangible assets	(3)	44.7	3.1	41.3	3.3	43.7	3.3
Shares in associates	(4)	15.5	1.1	12.4	1.0	14.1	1.1
Other non-current financial assets	(5)	37.2	2.6	36.9	2.9	37.7	2.8
Non-current receivables		0.3	0.0	2.8	0.2	0.7	0.1
Deferred tax assets	(6)	98.8	6.8	73.1	5.7	70.4	5.3
		647.1	**44.7**	**592.4**	**46.6**	**607.4**	**45.9**
Current assets							
Inventories	(7)	432.6	29.9	286.7	22.5	380.9	28.8
Trade and other current receivables	(8)	303.5	20.9	246.4	19.4	273.7	20.7
Income tax receivables		4.7	0.3	4.2	0.3	8.2	0.6
Other financial assets	(9)	2.0	0.1	2.7	0.2	7.8	0.6
Cash and cash equivalents	(10)	58.8	4.1	139.8	11.0	46.3	3.4
		801.6	**55.3**	**679.8**	**53.4**	**716.9**	**54.1**
		1,448.7	**100.0**	**1,272.2**	**100.0**	**1,324.3**	**100.0**
EQUITY AND LIABILITIES							
Equity							
Share capital	(11)	289.4	20.0	289.4	22.7	275.6	20.8
Group reserves	(11)	31.0	2.2	(87.8)	(6.9)	(120.7)	(9.1)
Equity attributable to equity holders of RHI AG		320.4	22.2	201.6	15.8	154.9	11.7
Non-controlling interests	(11)	0.5	0.0	4.5	0.4	5.2	0.4
		320.9	**22.2**	**206.1**	**16.2**	**160.1**	**12.1**
Non-current liabilities							
Non-current financial liabilities	(13)	236.3	16.3	237.7	18.7	322.5	24.4
Deferred tax liabilities	(6)	3.6	0.3	8.7	0.7	11.1	0.8
Personnel provisions	(14)	308.5	21.3	287.5	22.6	297.7	22.5
Other non-current provisions	(15)	3.3	0.2	3.2	0.3	3.2	0.2
Other non-current liabilities	(16)	6.3	0.4	5.7	0.4	5.4	0.4
		558.0	**38.5**	**542.8**	**42.7**	**639.9**	**48.3**
Current liabilities							
Subordinated convertible bonds		0.0	0.0	0.0	0.0	13.9	1.0
Current financial liabilities	(13)	163.5	11.3	158.0	12.4	121.5	9.2
Trade and other current payables	(16)	293.2	20.2	265.2	20.9	282.1	21.3
Other financial liabilities	(9)	1.8	0.1	1.4	0.1	0.0	0.0
Income tax payables		34.5	2.4	27.2	2.1	35.8	2.7
Current provisions	(17)	76.8	5.3	71.5	5.6	71.0	5.4
		569.8	**39.3**	**523.3**	**41.1**	**524.3**	**39.6**
		1,448.7	**100.0**	**1,272.2**	**100.0**	**1,324.3**	**100.0**

Explanations on the adjusted comparative figures for 2009 and 2008 are provided in the notes under "Accounting principles, general".

RHI Consolidated Income Statement 2010

in € million	Notes	2010	%	2009	%
CONTINUING OPERATIONS					
Revenues	(20)	1,522.9	100.0	1,236.9	100.0
Cost of sales	(21)	(1,188.0)	(78.0)	(965.2)	(78.0)
Gross profit		**334.9**	**22.0**	**271.7**	**22.0**
Sales and marketing costs	(22)	(104.4)	(6.9)	(102.4)	(8.3)
General and administration costs	(23)	(100.3)	(6.6)	(89.9)	(7.3)
Other income	(24)	17.5	1.2	7.8	0.6
Other expenses	(25)	(8.9)	(0.6)	(8.2)	(0.7)
Operating result		**138.8**	**9.1**	**79.0**	**6.3**
Reversal of impairment losses/(impairment losses)	(26)	21.0	1.4	(9.1)	(0.7)
Restructuring costs	(27)	(33.8)	(2.2)	(15.1)	(1.2)
Operating results (EBIT)		**126.0**	**8.3**	**54.8**	**4.4**
Interest income	(28)	2.9	0.2	2.6	0.2
Interest expenses		(17.0)	(1.1)	(19.1)	(1.5)
Other financial results	(29)	(13.9)	(0.9)	(15.5)	(1.3)
Financial results		(28.0)	(1.8)	(32.0)	(2.6)
Results from associates		6.6	0.4	2.4	0.2
Profit before income taxes		**104.6**	**6.9**	**25.2**	**2.0**
Income taxes	(30)	0.0	0.0	(3.8)	(0.3)
Profit for the year from continuing operations		**104.6**	**6.9**	**21.4**	**1.7**
DISCONTINUED OPERATIONS					
Profit from discontinued operations	(31)	1.1		0.0	
Profit for the year		**105.7**		**21.4**	
Profit/(loss) attributable to					
equity holders of RHI AG		105.9	100.2	20.9	97.7
non-controlling interests		(0.2)	(0.2)	0.5	2.3
		105.7	100.0	21.4	100.0
in €					
Continuing operations					
Basic earnings per share	(38)	2.63		0.55	
Diluted earnings per share	(38)	2.63		0.52	
Discontinued operations					
Basic earnings/diluted earnings per share		0.03		0.00	

Explanations on the reclassified comparative figures for 2009 are provided in the notes under "Accounting principles, general".

RHI Consolidated Statement of Comprehensive Income 2010

in € million	2010	2009
Profit after income taxes	**105.7**	**21.4**
Other results recognised in equity net of income taxes		
Currency translation differences		
Unrealised results from currency translation	32.7	18.1
Reclassification to income statement due to disposal of subsidiaries	0.2	0.0
Actuarial results arising from defined benefit pension plans and termination benefits	(25.2)	(5.9)
Deferred taxes on actuarial results arising from defined benefit pension plans and termination benefits	7.0	1.6
	14.7	**13.8**
Total comprehensive income	**120.4**	**35.2**
Total comprehensive income attributable to		
equity holders of RHI AG	120.3	34.7
non-controlling interests	0.1	0.5
	120.4	35.2

RHI Consolidated Statement of Changes in Equity 2010

	Equity attributable to equity holders of RHI AG							
in € million	Share capital	Additional paid-in capital	Fair value reserves	Currency translation reserves	Accumulated results	Total	**Non-controlling interests**	**Total equity**
31.12.2009	**289.4**	**38.3**	**3.1**	**(61.3)**	**(67.9)**	**201.6**	**4.5**	**206.1**
Total comprehensive income	-	-	-	32.6	87.7	**120.3**	**0.1**	**120.4**
Change in non-controlling interests	-	-	-	-	(1.5)	**(1.5)**	**(4.1)**	**(5.6)**
31.12.2010	**289.4**	**38.3**	**3.1**	**(28.7)**	**18.3**	**320.4**	**0.5**	**320.9**

	Equity attributable to equity holders of RHI AG							
in € million	Share capital	Additional paid-in capital	Fair value reserves	Currency translation reserves	Accumulated results	Total	**Non-controlling interests**	**Total equity**
31.12.2008	**275.6**	**38.3**	**3.1**	**(79.4)**	**(75.0)**	**162.6**	**19.2**	**181.8**
Adjustments according to IAS 8	-	-	-	-	(7.7)	**(7.7)**	**(14.0)**	**(21.7)**
31.12.2008 adjusted	**275.6**	**38.3**	**3.1**	**(79.4)**	**(82.7)**	**154.9**	**5.2**	**160.1**
Total comprehensive income [1]	-	-	-	18.1	16.6	**34.7**	**0.5**	**35.2**
Dividends [1]	-	-	-	-	-	**0.0**	**(0.9)**	**(0.9)**
Capital increase	13.8	-	-	-	-	**13.8**	**-**	**13.8**
Change in non-controlling interests	-	-	-	-	(1.8)	**(1.8)**	**(0.3)**	**(2.1)**
31.12.2009	**289.4**	**38.3**	**3.1**	**(61.3)**	**(67.9)**	**201.6**	**4.5**	**206.1**

Explanations on equity are provided under note (11).

With respect to adjustments in accordance with IAS 8 see "Accounting principles, general" in the notes.

1) Not taking into account the adjustment of non-controlling interests and profits.

RHI Consolidated Cash Flow Statement 2010

in € million	Notes	2010	2009
Profit after income taxes from continuing operations		104.6	21.4
Adjustments for			
income taxes		0.0	3.8
depreciation and amortisation charges		53.7	50.6
impairment losses on property, plant and equipment and intangible assets		14.8	9.1
reversal of impairment losses on property, plant and equipment and intangible assets		(22.5)	(0.2)
reversal of impairment losses on financial assets		(1.1)	(0.9)
(gains)/losses from the disposal of property, plant and equipment		(0.3)	0.9
interest result		14.1	16.5
dividend income		(0.7)	(0.3)
results from associates		(6.6)	(2.4)
other non-cash changes		13.6	17.7
Change in working capital			
Inventories		(125.5)	107.0
Trade receivables		(28.9)	27.1
Other receivables and assets		(14.6)	11.8
Provisions		(18.6)	(32.1)
Trade payables		28.1	(3.9)
Other liabilities		(7.3)	(13.0)
Cash flow from operating activities		**2.8**	**213.1**
Income taxes paid		(15.1)	(11.1)
Net cash flow from operating activities	(34)	**(12.3)**	**202.0**
Investments in non-controlling interests		(6.1)	(1.8)
Cash inflows from the sale of subsidiaries net of cash		(0.9)	0.0
Investments in property, plant and equipment and intangible assets		(57.4)	(41.5)
Cash inflows from the sale of property, plant and equipment		2.5	1.1
Investments in non-current receivables		(0.1)	(2.2)
Cash inflows from non-current receivables		2.2	0.6
Investments in financial assets		(1.4)	0.0
Cash inflows from the sale of financial assets		0.0	0.9
Dividend payments from associates		3.4	4.1
Investment subsidies received		1.1	0.0
Interest received		1.6	2.4
Dividends received		0.8	0.2
Net cash flow from investing activities	(35)	**(54.3)**	**(36.2)**
Dividend payments to non-controlling interests		0.0	(0.2)
Proceeds from non-current borrowings and loans		26.3	11.1
Repayments of non-current borrowings and loans		(63.4)	(72.0)
Proceeds from current borrowings		34.0	33.2
Repayments of current borrowings		(1.3)	(24.8)
Interest payments		(13.9)	(20.0)
Net cash flow from financing activities	(36)	**(18.3)**	**(72.7)**
Total cash flow		**(84.9)**	**93.1**
Change in cash and cash equivalents		**(84.9)**	**93.1**
Cash and cash equivalents at beginning of year		139.8	46.3
Change in cash and cash equivalents due to currency translation		3.9	0.4
Cash and cash equivalents at year-end		58.8	139.8

Explanations on the reclassified comparative figures for 2009 are provided in the notes under "Accounting principles, general".

RHI Notes to the Consolidated Financial Statements 2010

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 RHI Group comprise the three segments Steel, Industrial and Raw Materials. The Industrial segment includes the cement, lime, glass, non-ferrous metals, environment, energy and chemical industries. The Raw Materials segment covers the value-added activities of the Group's mining and raw material operations, which primarily supply the Steel and Industrial segments.

The parent company of the Group is RHI AG, which is headquartered in Austria at Wienerbergstrasse 9, 1100 Vienna.

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

Accounting principles, general

The financial year of the RHI Group comprises the period from 1 January to 31 December. The financial statements of all companies included in the consolidation were prepared as of the Group closing date on 31 December 2010.

The consolidated financial statements were prepared pursuant to § 245a of the Austrian Commercial Code in accordance with International Financial Reporting Standards (IFRSs), 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 2010
These consolidated financial statements were released by the Management Board on 7 March 2011.

The individual financial statements of the parent company, which were also included in the consolidation after adjustments to reflect International Financial Reporting Standards, are presented to the Supervisory Board on 21 March 2011 for examination. 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 new or revised accounting standards and interpretations, which are to be applied in the EU, were applied for the first time in 2010:

>> IAS 27 (amended 2008): Consolidated and Separate Financial Statements
>> IAS 28 (amended 2008): Investments in Associates
>> IAS 39 (amended 2008): Financial Instruments: Recognition and Measurement - Eligible Hedged Items
>> IFRS 2 (amended 2009): Group Cash-settled Share-based Payment Arrangements
>> IFRS 3 (amended 2008): Business Combinations
>> Improvements to IFRSs (2009)
>> IFRIC 17 (2008): Distributions of Non-Cash Assets to Owners
>> IFRIC 18 (2009): Transfers of Assets from Customers

The revised versions of IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements" have been applied by the RHI Group since 1 January 2010. The major changes compared with the previous version of these standards can be summarised as follows:

In accordance with IFRS 3, acquisition-related costs that are directly attributable to a business combination are no longer part of the cost of a business combination, but must normally be recognised through profit or loss.

Changes in the consideration resulting from events after the acquisition date will not result in an adjustment of goodwill but will usually have to be recognised through profit or loss.

The new version of IFRS 3 provides two options for the measurement of non-controlling interests at acquisition: non-controlling interests may be measured at their fair value, i.e. at the non-controlling interest's proportionate share of the acquiree's identifiable net assets and of goodwill, or, as in the past, only at the fair value of the identifiable assets and liabilities attributable to the non-controlling interests.

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 in profit or loss at the date when control is obtained.

The seller in a business combination may contractually indemnify the acquirer for the outcome of a contingency, e.g. a tax contingency. The resulting indemnification asset has to be recognised at the same time that the indemnified liability is recognised and has to be measured on the same basis as the indemnified liability.

According to the amendments to IAS 27 changes in the percentage of ownership without a loss of control may only be treated as equity transactions. However, if 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 gain or loss must be recognised through profit or loss.

Another amendment to IAS 27 regulates the allocation of losses attributable to non-controlling interests. Under the previously applicable provisions of IAS 27, losses that exceed the carrying amount of non-controlling interests were normally allocated to the equity holders of the parent. Since 1 January 2010 the share of non-controlling interests is allocated to non-controlling interest even if this results in the carrying amount of the respective non-controlling interest being negative.

The revised versions of IFRS 3 and IAS 27 mainly have to be applied prospectively. The amendments had no effect on the RHI Group's assets, liabilities, financial position and profit or loss in the financial statements as of 31 December 2010 but will have an effect on future consolidated financial statements if business combinations are realised.

The other new or revised standards and interpretations were applied in these financial statements as well. Their application had no material effect on the figures reported in these financial statements, but may affect the accounting of future transactions.

New financial reporting standards not yet adopted
The IASB has issued new standards and amendments to standards and interpretations that must not be applied mandatorily during the 2010 financial year yet. They have not been applied prematurely on a voluntary basis either.

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 24 (revised 2009): Related Party Disclosures
>> IAS 32 (amended 2009): Financial Instruments: Presentation - Classification of Rights Issues
>> Improvements to IFRSs (2010)
>> IFRIC 14 (amended 2009): IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
>> IFRIC 19 (2009): Extinguishing Financial Liabilities with Equity Instruments

The changes to the principles of accounting and measurement are not expected to have any or any material effect on the RHI Group.

The IASB has also issued other accounting regulations that had not been endorsed by the EU prior to the preparation of the RHI consolidated financial statements:

>> IFRS 7 (amended 2010): Enhancing disclosures about transfers of financial assets
>> IFRS 9 (2009): Financial Instruments

IFRS 9 "Financial Instruments" was published in November 2009. IFRS 9 regulates the classification and measurement of financial assets. The valuation categories of "loans and receivables", "held to maturity investments", "available-for-sale financial assets" and "financial assets at fair value through profit or loss" are replaced by the categories "amortised cost" and "fair value". Whether an instrument qualifies for the category of amortised cost, depends on the company's business model, i.e. how the company controls its financial instruments, and on the contractual cash flows of the individual instrument. Amendments have to be applied retroactively for annual periods beginning on or after 1 January 2013.

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

Other changes to accounting and measurement principles and presentation
(1) Accounting of non-controlling interests
The RHI Group has re-evaluated its accounting method regarding the shares of non-controlling interests (previously referred to as "minority interests") in fully consolidated subsidiaries. Previously, the financial instruments that subsidiaries issued to minority interests were exclusively classified as equity instruments. In the consolidated financial statements of 2010, these financial instruments were reassessed in accordance with the economic content of the contractual agreement and the definition of the IFRSs, classified as financial liabilities where appropriate and measured in accordance with the provisions of IAS 39. Interest and dividends as well as profits and losses related to such financial liabilities are subsequently recorded as expense or income in the consolidated income statement. The liabilities are derecognised upon expiry of the contracts.

This change was applied to four subsidiaries, where reciprocal rights of termination of shareholders, time limits on the provision of capital loans due to local legal regulations and/or guaranteed dividends exist.

In the RHI consolidated financial statements 2010, the above changes were applied to the prior-year presentation of the consolidated statement of financial position, consolidated statement of changes in equity and the consolidated cash flow statement in accordance with the provisions of IAS 8. The effect of this change on the key indicators EBIT and EBITDA as well as on the share in profit after income tax and earnings per share attributable to the equity holders of RHI AG is immaterial. Therefore, no retroactive adjustment was made to the consolidated income statement 2009. If such an adjustment had been made, the operating results and the EBITDA for the financial year 2009 would be € 0.2 million lower than the reported operating results of € 54.8 million and the EBITDA of € 114.5 million. The financial result would deteriorate by € 1.8 million, from € (32.0) million to € (33.8) million. Overall, the profit for the year 2009 would be € 2.0 million lower and would thus amount to € 19.4 million rather than € 21.4 million. Of this amount, € 19.2 million (€ (1.7) million) would be attributable to the equity holders of RHI AG and € 0.2 million (€ (0.3) million) to other shareholders. The basic earnings per share of continuing operations would be € 0.05 lower, and diluted earnings per share € 0.04 lower.

In the consolidated financial statements 2010, the following adjustments were made as of 31 December 2009 and 31 December 2008 (including effect on result 2009):

Increase in cost of other intangible assets	€ 4.0 million
Increase in accumulated amortisation of other intangible assets	€ 4.0 million
Increase in deferred tax assets	€ 1.0 million
Decrease in accumulated group results	€ 7.7 million
Decrease in non-controlling interests	€ 14.0 million
Increase in non-current financial liabilities	€ 20.1 million
Increase in current financial liabilities	€ 2.6 million

Following the adjustment by € (21.7) million, equity as of 31 December 2009 amounts to € 206.1 million (31.12.2008: € 160.1 million). The equity ratio as of 31 December 2009 therefore declines from 17.9% (31.12.2008: 13.7%) to 16.2% (31.12.2008: 12.1%).

This has the following effects on the financial information for the period from 1 January to 31 December 2010:

Decrease in accumulated amortisation of other intangible assets	€ 4.4 million
Decrease in accumulated group results	€ 4.6 million
Decrease in non-controlling interests	€ 17.0 million
Increase in non-current financial liabilities	€ 22.4 million
Increase in current financial liabilities	€ 3.6 million
Expense included in cost of sales	€ 0.3 million
Income included in reversal of impairment losses/impairment losses	€ 4.4 million
Expense included in interest expenses	€ 1.8 million
Expense included in income tax	€ 1.0 million
Increase in profit after income taxes	€ 1.3 million
Increase in profit attributable to equity holders of RHI AG	€ 3.8 million
Increase in loss attributable to non-controlling interests	€ 2.5 million

Without the adjustments, the equity shown in the statement of financial position as of 31 December 2010 would be € 21.6 million higher.

The effect on earnings per share of continuing operations for the year 2010 amounts to € 0.09.

In the consolidated cash flow statement 2009, dividend payments to minority interests to the amount of € 0.6 million were reclassified to the repayment of financial liabilities. The effect on the reporting year 2010 amounts to € 1.0 million.

(2) Presentation of the Income Statement

In the first quarter of 2010, a reclassification of the item special direct distribution costs, which was originally shown separately, was introduced and these costs were transferred to cost of sales and to sales and marketing costs. Special direct distribution costs, which are generally not reported separately by refractories companies, included freight, licenses, commissions and other costs and amounted to € 99.1 million in 2009. With the exception of commissions of € 24.5 million, which were allocated to sales and marketing costs, all other items were reclassified to cost of sales. As a result, cost of sales rose by € 74.6 million and sales and marketing costs by € 24.5 million in 2009.

(3) Segment reporting

In order to be able to better compare the performance of the Raw Materials segment with competitors, the RHI Management Board decided to show raw material purchases from third parties in the Steel and Industrial segments, where these raw materials are processed. Previously, raw materials for the Steel and Industrial segments were purchased from third parties and resold to the Steel and Industrial segments. As of 2010, the internal and external revenues of the Raw Materials segment only reflect raw materials produced internally. As a result of this change, revenues of the Raw Materials segment in the year 2009 fell by € 323.7 million.

Proceeds on the sale of emission certificates of € 3.1 million realised in the second quarter of 2009 were allocated to the divisions.

In order to enhance comparability and transparency of the operating segments Steel, Industrial and Raw Materials, expenses for central functions and other income and expenses previously not allocated have been allocated to the three operating segments in management reporting as of the year 2010. The costs originally shown under the item "Holding and other" of € 30.2 million in the reference year, were allocated to the operating segments on the basis of the external revenues of the segments in the year 2009.

In addition to inventories and receivables, property plant and equipment and intangible assets are also allocated to the operating segments starting with the financial year 2010. The carrying amounts as of 31 December 2009 were not retroactively allocated for reasons of practicability.

Principles of Accounting and Measurement

A Principles of consolidation

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% 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 is offset against the proportional share of net assets based on the fair value of the acquired assets and liabilities on the date of acquisition or transfer of control. Acquisition-related transaction costs that are directly related to the business combination are recognised through profit or loss since 1 January 2010.

Identifiable intangible assets are accounted for separately. They are amortised on schedule and if the useful life cannot be determined, they 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.

In case 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.

Associates

The equity method is used to consolidate major associates in cases where the RHI Group holds between 20 and 50% of the shares and is able to exercise a significant influence.

The principles applicable to full consolidation are applied accordingly to differences between the acquisition cost of the investments and the fair value of the Group's share in the equity of the associates. 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.

B Foreign currency translation

Functional and presentation currency

The consolidated financial statements are presented in Euro, which represents the functional and presentation currency of RHI AG.

The individual account balances 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 prepared in Euro.

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 presentation currency are translated into Euro 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 monthly rate	
Currencies	ISO-Code	31.12.2010	31.12.2009	2010	2009
Pound sterling	GBP	0.85	0.89	0.86	0.90
Canadian dollar	CAD	1.32	1.50	1.38	1.59
Chilean peso	CLP	621.61	725.49	683.57	784.53
Mexican peso	MXN	16.39	18.64	16.89	18.95
Chinese renminbi yuan	CNY	8.74	9.77	9.03	9.51
South African rand	ZAR	8.75	10.57	9.80	11.71
US dollar	USD	1.32	1.43	1.33	1.39

C Property, plant and equipment

Property, plant and equipment are measured at acquisition or production cost, less depreciation on a systematic basis. 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 not material, and are included under property, plant and equipment. These assets are measured at depreciated acquisition or production 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 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 amortisation of the outstanding liability. As of the balance sheet date, the carrying amount of property, plant and equipment leased through finance leasing is not material. All other leases are treated as operating leases. 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 capitalisable production overheads. Borrowing costs for investments in property, plant and equipment that have been started after 1 January 2009 and have a project term of more than half a year are capitalised if material.

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

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	7 to 20 years
Technical equipment and machinery	3 to 60 years
Other plant, furniture and fixtures	3 to 20 years

The remaining carrying amounts and economic useful lives are reviewed regularly, 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 amount of the replaced components is derecognised. Regular maintenance and repair costs are expensed as incurred.

Gains or losses from the disposal of property, plant and equipment, which result as the difference between the net realisable value and the carrying amount, 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 programs 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 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% 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. Land use rights are amortised over 50 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 at least 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, except for goodwill, the impairment loss is reversed.

In order to carry out impairment tests, assets are first combined into groups (cash-generating units) for which separate cash flows can be determined. Up to and including 31 December 2010 a production plant represented the smallest cash-generating unit.

As of 1 January 2011, the method has been changed so that the cash-generating units correspond to the divisional organisation structure. These units in each division reflect the market appearance and the market presence and as such generate the largest part of the cash flows. Therefore they are defined as cash generating units, and impairment tests are conducted for each of these units.

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%, unchanged compared to the previous year.

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 8.34 to 14.99%. In the previous year interest rates ranged from 8.91 to 14.02%.

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.

Based on the impairment test conducted in 2010, a complete reversal of impairment losses of € 22.5 million recognised in profit and loss in 2008 and 2009 is necessary.

For the year 2010, the impairment test was also carried out in accordance with the definition of cash-generating units applicable as of 1 January 2011 in parallel to the previously applicable method. The result of this impairment test also shows the necessity of a reversal of impairment losses recognised in 2008 and 2009.

G Other financial assets

The financial assets recorded in the RHI consolidated statement of financial position comprise solely financial assets classified as "available for sale".

Financial assets available for sale are initially measured at fair value plus any related transaction expenses. Subsequent measurement reflects fair value, with changes in fair value being recorded directly in equity without recognition to profit and loss. Impairments are charged to profit or loss. Any impairments of equity instruments are reversed without recognition to profit or loss; for debt instruments, these impairments are reversed and 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 effort, these financial assets are measured at cost. If there are any indications that the fair value is lower, the carrying amount 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 collectibility of non-current receivables is reflected in the use of the lower realisable amount. Foreign currency receivables are translated at the exchange rate in effect on the balance sheet date.

Non-current receivables that are due and payable within twelve 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 amount of assets and liabilities, tax-loss carryforwards and consolidation entries.

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. No temporary differences are recognised for financial instruments which were issued by subsidiaries to non-controlling interests and which are classified as a financial liability in accordance with IFRS.

The RHI Group only recognises deferred tax assets if it is reasonably certain that sufficient taxable profits, 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 (12 to 40%), and generally reflects the enacted or substantively enacted tax rate on the balance sheet date.

Deferred tax assets and liabilities are offset 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.

J Inventories

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

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

Finished goods and work in process are valued at fixed and variable production cost. Borrowing costs for inventories that are regularly produced in large volumes are not capitalised.

K Long-term 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 foreign currencies 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. This system 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. If the existing emission certificates are not sufficient to cover the probable liabilities, provisions will be made.

Rights received free of charges are not recognised on the balance sheet. Proceedings from the sale of these rights are recognised under revenue.

N Other financial assets and liabilities
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 financial assets available for sale.

In the RHI Group, financial assets held for trading include derivative financial instruments in the form of forward exchange contracts as well as embedded derivatives 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 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 presented as other financial 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 denominated in foreign currencies are translated at the average exchange rate on the balance sheet date.

P Provisions
Provisions are created when the Group incurs a legal or constructive obligation as a result of past events, 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 settlement value as of the balance sheet date, if the discount effect is material.

If maturities cannot be estimated, they are shown under current provisions.

Personnel provisions

Provisions for pensions

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

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

For pension plans financed through external funds, the pension obligation is calculated according to the projected unit credit method and reduced by the plan assets. If the plan 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 and expected income on plan assets.

Actuarial assumptions are required to calculate these obligations, above all 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 the equity item of accumulated results 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 comprise primarily obligations to employees under Austrian law and, to a lesser extent, obligations under other local regulations.

Termination benefits as defined by Austrian labour law represent one-off lump-sum payments to employees, which are required when the employer terminates the employment relationship or when the employee retires. The amount of the termination payment is dependent on the last wage/salary as well as the length of service. RHI has direct obligations to employees who joined the company up to and including 2002, for which provisions were created and measured in accordance with IAS 19. The projected unit credit method is used for these calculations. Actuarial gains and losses are recorded directly to equity after the deduction of deferred taxes and shown in the statement of comprehensive income.

Legal regulations in Austria require employers to make regular contributions equal to 1.53% 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. Claims by employees to termination benefits are filed with the statutory termination benefit scheme, while the regular contributions are treated similar to those for defined contribution pension plans and included under personnel expenses.

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

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

When a company has a legal obligation to pay service anniversary bonuses, the relevant provisions are calculated in accordance with the employees' length of service based on an interest rate of 4.5% (31 December 2009: 5.3%) and an increase by 3.6% (31 December 2009: 3.25%) 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. The discount rate amounts to 4.5% as of 31 December 2010 (31 December 2009: 5.3%).

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.

Provisions for restructuring
Provisions for restructuring are created insofar as a detailed formal restructuring plan has been developed and announced.

Q 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.

R Subsidies

Subsidies for the promotion of investments are recognised as liabilities, and released through profit or loss over the useful life of the relevant asset.

Subsidies that were granted as compensation for expenses or losses are recognised to income or loss in the periods in which the subsidised expenses are incurred. In the RHI Group, they mainly include subsidies for research and further education.

S Convertible bonds

Convertible bonds are classified as compound financial instruments that have both a debt and equity component. The present value of the liability and the equity portion of the convertible bond are 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 equity kicker, 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 would be converted.

The convertible bond liability was carried at amortised cost up to conversion; cost was calculated by applying the effective interest method. The interest expense on the convertible bond was calculated using an internal interest rate of 7.3% (rounded).

As of 31 December 2009, all individual convertible bond certificates had been converted.

T Revenues 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 ownership and risk are transferred to the customer, the consideration 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 agreed, 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.

Moreover, revenue from the sale of emission rights is recognised under revenues.

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 from investments that are not accounted for according to equity consolidation are recognised to profit and loss at the time the legal claim arises.

Income taxes are recognised according to 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 scheduled 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 residual activities of the discontinued Waterproofing Division were accounted for in accordance with the provisions of IFRS 5 from 30 June 2008 up to its sale on 1 September 2008. The Insulating Division, which produced and sold products made of stone wool, light-weight wood-wool building boards and natural insulating materials, was sold on 13 June 2006.

V Segment reporting

The RHI Group comprises the operating segments Steel, Industrial and Raw Materials. This segmentation of the divisions is geared to internal control and reporting.

The segmentation into Steel and Industrial represents a grouping by the main customer industries. The Industrial segment comprises the glass, cement/lime, nonferrous metals and environment, energy and chemical industries. The Raw Materials segment covers the supply with raw materials throughout the Group. These raw materials are produced at the Group's plants and sold within the Group at market price. The plants are allocated to the corresponding segments.

An income statement including operating results is available for each segment. The result from associates is allocated to the segments. The financial result and income taxes are not allocated to the reportable segments.

Segment assets include trade receivables and inventories, as well as property plant and equipment, goodwill and other intangible assets, which are available to the segments and are reported to the management for control and measurement. Shares in associates are allocated to the segments. All other assets are shown under unallocated assets.

Data on revenues by country is disclosed by the sites of the customers. Data on non-current assets (property, plant and equipment and intangible assets) is disclosed on the basis of the respective locations of the companies of the RHI Group.

Explanations regarding the changes in segment reporting can be found under "Accounting principles, general".

W Risk Management

Being a globally operating group, RHI is exposed to a variety of risks, which require risk management throughout the Group. Based on the risk management introduced in 2009, systematic and decentralised risk identification, evaluation and control have created awareness and transparent dealing with risks throughout the Group. Regular assessment of a risk situation and the corresponding information to the Management Board or the responsible business managers make it possible to take controlled risks and consequently use opportunities. Internalised risk management thus represents an essential competitive advantage.

Risk Owners in the operating units and central group functions identify, evaluate and control risks where they occur. Risk Coordinators ensure that identified risks and the measures derived are dealt with in an interdisciplinary manner and across segments. In organisational terms, Central Risk Management is part of the Finance department and is responsible for the risk management process and its further development. It provides uniform methods and tools for the identification and assessment throughout the Group.

Risk identification is supported by the definition of risk areas and categories of risk. Risks are then measured according to their probability of occurrence and potential effect on the EBIT of the unit affected, with the effect of control measures that have been completed being taken into account. With respect to significant risks, a possible effect on cash is also considered. Central Risk Management summarises the risk situation for the stakeholders of the risk management process for their respective areas of responsibility and provides this information in risk reports on a quarterly basis. The process is supported by a professional integrated risk management software. Risk policy and risk management processes are laid down in a Risk Manual and available on the intranet.

Significant risks

In the risk management process all risks related to the operating business are considered. The risk areas strategy, sales, production, supply chain, research & development, employees, finance, IT, Compliance & Legal, as well as natural disasters were defined. The following key risks, which may have the greatest influence on the earnings and asset position of the Group, result from the risk analysis:

Steel production: The development in steel production in the markets relevant to RHI has great influence on the profitability of the Steel Division. The RHI Group's clear strategy to expand its market share in the BRIC countries enables the Group to put revenues and earnings on a more widely diversified base.

Competitive situation and market share in the steel industry: Whether the RHI Group is able to generate the planned revenues depends on its ability to prevail over its competitors and to realise identified market opportunities. Based on its technology leadership and an increased focus on the Full Line Service business and high-end system solutions, RHI extends its competitive advantage, thus securing market share in the future.

Political and legal environment: As a result of the global operations of the RHI Group and the expansion of both production and sales from developed into emerging markets, new risks arise. They are controlled through spreading and monitoring. These measures allow the RHI Group to use opportunities in growth regions.

Development of raw material prices: The RHI Group obtains roughly 50% of its raw materials from external sources and is therefore exposed to price fluctuations in the raw material markets. The expansion of the Group's own production by increasing capacity at existing production sites or based on acquisitions and cooperation (joint ventures) serves to reduce this risk.

Availability of production plants: This risk results from possible damage to production plants. This risk is reduced or partially passed on through property insurance, risk audits and maintenance plans.

Financial Risks
Financial risks are embedded in RHI's group-wide risk management and are controlled centrally by Group-Treasury. None of the following risks represent a major risk for the RHI Group:

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 Group's financial policy is based on long-term planning and is centrally managed and continuously monitored. The liquidity requirements defined by the planning process are met through the conclusion of appropriate financing agreements. These lines were concluded with different Austrian and international banks in order to guarantee bank independence.

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

Foreign exchange risk arises above all in areas 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.

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 predominantly in the euro zone.

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., companies deconsolidated as of 31 December 2001 already, was positively concluded during September and December 2007 with the approval and confirmation of the reorganisation plan. These companies are no longer considered to be subsidiaries of RHI AG because the Chapter 11 proceedings initiated by the companies at the beginning of 2002 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.

The 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 affiliates became beneficiaries with legal security of the channelling injunctions of the DII reorganisation plan. This plan 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. 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.

When the approval of the plan of reorganisation was confirmed on 18 December 2007, a 30-day appeal period began. Two insurance companies filed appeals within this period based on the reasoning they had used unsuccessfully in their first instance appeals. In May 2009, an oral hearing took place in the appeals proceedings, which are conducted jointly for the companies of NARCO and GIT. In the second quarter of the reporting period, the NARCO appeals proceedings were closed due to a settlement with the plaintiffs. In the GIT appeals proceedings another hearing took place before the entire judges' college on 13 October 2010. However, it is unclear when the court of appeals will issue its decision. In the reporting period 2010, no further developments of material importance took place in the appeals proceedings.

The final court decision on the reorganisation plans will give RHI AG and its affiliates full legal security concerning all remaining claims for damages against the US companies covered by the Chapter 11 proceedings. Moreover, RHI AG and its affiliates will then become beneficiaries of the court orders based on the reorganisation plans. All existing and future asbestos-related claims for damages against the deconsolidated US companies would then be completed with full legal security.

Y Assumptions and estimates

To a certain extent, the application of accounting and valuation 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 of the cash-generating units.

Neither a 10% reduction in the estimated contribution margin nor a 10% increase in the discount rate would lead to an impairment of property, plant and equipment and intangible assets. This applies to both the definition of cash-generating units applicable until 31 December 2010 and the definition valid as of 1 January 2011.

Impairment of goodwill

The effect of an adverse change by +10% in the interest rate or -10% in the contribution margin as estimated on 31 December 2010 would not result in an impairment charge to the recognised goodwill.

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 interest rate. Any change in the interest rate will have an effect on the present value of the obligation.

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 (14).

If the interest rate differed by 10% from the estimates made by management, the present value of the pension obligations would be € 14.6 million higher or € 13.1 million lower.

Deferred taxes
If future taxable profits during the planning period defined for the recognition and measurement of deferred taxes varied by 10% from the assumptions made as of the balance sheet date, the net position recognised for deferred taxes would presumably increase by € 7.9 million or to decrease by € 9.3 million.

Other items
Changes in the estimates and assumptions underlying the other balance sheet items do not have a material impact on the Group's assets, liabilities, financial position and profit or loss for the following financial year.

Z Group of consolidated companies

In addition to RHI AG, the consolidated financial statements include 71 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 group of consolidated companies changed as follows during the reporting year:

	Full consolidation	Equity method
31.12.2009	**73**	**3**
Additions	1	0
Disposals	(2)	0
31.12.2010	**72**	**3**

The group of consolidated companies changed as follows during the prior year:

	Full consolidation	Equity method
31.12.2008	**73**	**3**
Additions	2	0
Disposals	(2)	0
31.12.2009	**73**	**3**

Fully consolidated subsidiaries
Additions 2010
With effect from 1 July 2010 the newly founded subsidiary RHI US Ltd., Wilmington, USA (100%) was added to the group of consolidated companies.

On 17 August 2010, the 2.5% stake which minority shareholders held in Didier-Werke AG, Wiesbaden, Germany, was transferred by law to RHI AG based on the registration of the execution of the squeeze-out in the commercial register. RHI is now the sole shareholder. The difference between the cost of the remaining shares of € 5.7 million and the proportional carrying amount of the non-controlling interests of € 4.2 million amounted to € 1.5 million and was recognised directly in equity.

Additions 2009

In the financial year 2009, the group of consolidated companies was extended by the newly founded subsidiaries LLC "RHI Wostok Service", Moscow, Russia (1 May 2009, 100%) and RHI Refratários Brasil Ltda., Sao Paulo, Brazil (1 May 2009, 100%).

With the sales agreement of 30 April 2009, RHI purchased the remaining 33.33 % in RHI Refractories Spaeter GmbH, Urmitz, Germany; the increase in majority interests was treated as a transaction between owners. The difference between the cost of the additional shares amounting to € 2.1 million and the proportional carrying amount of the non-controlling interests of € 0.3 million amounted to € 1.8 million and was recognised directly in equity and offset against accumulated group results.

Disposals 2010

With effect from 30 November 2010, Productora RHI Chile S.A., Santiago, Chile, was merged with RHI Chile S.A., Santiago, Chile.

With effect from 22 December 2010, all shares (51%) held in Quintermina AG, Chur, Switzerland, were sold. The proportional share of net assets disposed at the time of deconsolidation was as follows:

in € million	
Current assets	2.4
Cash and cash equivalents	0.5
Non-current liabilities	(1.1)
Current liabilities	(1.9)
Proportional share of net assets disposed	**(0.1)**

The contribution to earnings resulting from the disposal is immaterial. The cash flow generated by the sale of € (0.9) million resulted from sale price received in cash less cash and cash equivalents of the company sold.

Disposals 2009

RHI Monofrax PPE LLC, Wilmington, USA, was merged with RHI Monofrax, Ltd., Wilmington, USA as of 1 July 2009.

RHI Africa Investment Holdings (Pty) Ltd., Sandton, South Africa, left the group of fully consolidated subsidiaries as of 30 November 2009 through liquidation. The liquidation of this company had no material effect on RHI Group's assets, liabilities, financial position and profit or loss.

Subsidiaries not included in the consolidation

As in the previous year, three subsidiaries were not included in the consolidated financial statements because their influence on the Group's assets, liabilities, financial position and profit or loss as well as its cash flows is considered to be immaterial.

49 former US subsidiaries of the RHI Group (in particular Harbison-Walker Refractories Co., AP Green Industries Inc. and North American Refractories Co.) have not been classified as subsidiaries of RHI AG since 31 December 2001 because the Chapter 11 proceedings do not permit RHI AG to exercise control.

A detailed overview of the shareholdings and consolidation range of RHI AG is provided under note (43).

Notes on Individual Items of the Statement of Financial Position

Explanations regarding the adjustments can be found under "Accounting principles, general".

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 Euro at the exchange rates in effect on the balance sheet date. Changes that take place during the year are translated at the average monthly exchange rates. The currency translation differences resulting from the use of different translation rates are shown separately.

(1) Property, plant and equipment
Property, plant and equipment developed as follows during 2010:

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 31.12.2009	354.1	31.7	707.4	211.7	18.5	1,323.4
Currency translation	9.1	0.0	20.5	4.4	0.8	34.8
Additions	7.8	0.3	17.2	9.0	18.0	52.3
Retirements and disposals	(12.9)	0.0	(22.5)	(8.8)	0.0	(44.2)
Reclassifications	2.5	0.0	12.8	2.8	(18.5)	(0.4)
Cost at 31.12.2010	**360.6**	**32.0**	**735.4**	**219.1**	**18.8**	**1,365.9**
Accumulated depreciation at 31.12.2009	213.8	22.9	515.5	158.9	1.1	912.2
Currency translation	2.5	0.0	9.5	1.8	0.0	13.8
Depreciation charges	8.0	0.4	26.7	11.4	0.0	46.5
Impairment losses	3.2	0.0	11.3	0.3	0.0	14.8
Reversal of impairment losses	(8.0)	0.0	(7.0)	(2.7)	0.0	(17.7)
Retirements and disposals	(10.9)	0.0	(20.8)	(8.2)	0.0	(39.9)
Reclassifications	0.0	0.0	1.6	(0.5)	(1.1)	0.0
Accumulated depreciation at 31.12.2010	**208.6**	**23.3**	**536.8**	**161.0**	**0.0**	**929.7**
Carrying amounts at 31.12.2010	**152.0**	**8.7**	**198.6**	**58.1**	**18.8**	**436.2**

Property, plant and equipment developed as follows during 2009:

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 31.12.2008	334.3	31.6	676.7	217.8	57.6	1,318.0
Currency translation	2.8	0.0	9.4	0.8	(2.2)	10.8
Additions	4.0	0.1	12.8	4.5	15.1	36.5
Retirements and disposals	(1.3)	0.0	(19.4)	(20.4)	0.0	(41.1)
Reclassifications	14.3	0.0	27.9	9.0	(52.0)	(0.8)
Cost at 31.12.2009	**354.1**	**31.7**	**707.4**	**211.7**	**18.5**	**1,323.4**
Accumulated depreciation at 31.12.2008	201.4	22.5	493.0	166.1	8.9	891.9
Currency translation	1.3	0.0	5.1	0.3	0.0	6.7
Depreciation charges	7.3	0.4	25.0	10.7	0.0	43.4
Impairment losses	1.8	0.0	5.2	0.3	1.1	8.4
Reversal of impairment losses	(0.2)	0.0	0.0	0.0	0.0	(0.2)
Retirements and disposals	(1.1)	0.0	(16.6)	(20.2)	0.0	(37.9)
Reclassifications	3.3	0.0	3.8	1.7	(8.9)	(0.1)
Accumulated depreciation at 31.12.2009	**213.8**	**22.9**	**515.5**	**158.9**	**1.1**	**912.2**
Carrying amounts at 31.12.2009	**140.3**	**8.8**	**191.9**	**52.8**	**17.4**	**411.2**

Depreciation charges on property, plant and equipment are included in the income statement items cost of sales with € 43.7 million (2009: € 40.9 million), sales and marketing costs with € 1.1 million (2009: € 0.8 million) and general and administration costs with roughly € 1.7 million (2009: € 1.7 million). Of the impairment losses totalling € 14.8 million, € 13.3 million are shown under restructuring expenses and € 1.5 million (2009: € 8.4 million) under reversal of impairment losses/impairment losses. All reversals of impairment losses in the reporting year are recognised in the items reversal of impairment losses/impairment losses (2009: € 0.2 million under cost of sales).

The income statement includes rental and lease payments for leased property, plant and equipment (operating leases) totalling € 20.0 million (2009: € 16.8 million).

Real estate, land and buildings of a carrying amount of € 6.5 million, which are not used in production or for administration purposes and are available for sale in the medium to long term, are not shown separately as they are not considered material. The fair value resulting from comparable sales of such assets is estimated at € 15.7 million.

The marketability of real estate totalling € 20.4 million (31 December 2009: € 20.4 million) is limited by its commitment as collateral for credits.

(2) Goodwill
Goodwill developed as follows:

in € million	2010	2009
Cost/carrying amount at beginning of year	**14.7**	**14.7**
Currency translation	0.2	0.0
Change in consolidated companies	(0.5)	0.0
Cost/carrying amount at year-end	**14.4**	**14.7**

Goodwill reported as of 31 December 2010 is comprised as follows:

€ 0.5 million (31 December 2009: € 0.4 million) is accounted for by RHI Clasil Limited, € 12.7 million (31 December 2009: € 12.7 million) is attributable to the plants in Mexico and roughly € 1.2 million (31 December 2009: € 1.2 million) to the plants of the Didier-Werke AG Group (with the exception of Mexico).

The disposal of goodwill amounting to € 0.5 million due to a change in the group of consolidated companies results from the sale of the shares in Quintermina AG, Chur, Switzerland.

(3) Other intangible assets
Other intangible assets changed as follows during 2010:

in € million	Internally generated intangible assets	Other intangible assets	Total
Cost at 31.12.2009	20.5	72.8	93.3
Currency translation	0.4	2.0	2.4
Additions	2.8	2.3	5.1
Retirements and disposals	(1.8)	(1.1)	(2.9)
Reclassifications	0.0	0.4	0.4
Cost at 31.12.2010	**21.9**	**76.4**	**98.3**
Accumulated amortisation at 31.12.2009	9.9	42.1	52.0
Currency translation	0.5	1.0	1.5
Amortisation charges	2.3	4.9	7.2
Reversal of impairment losses	0.0	(4.8)	(4.8)
Retirements and disposals	(1.2)	(1.1)	(2.3)
Accumulated amortisation at 31.12.2010	**11.5**	**42.1**	**53.6**
Carrying amounts at 31.12.2010	**10.4**	**34.3**	**44.7**

Other intangible assets changed as follows in the previous year:

in € million	Internally generated intangible assets	Other intangible assets	Total
Cost at 31.12.2008	17.5	66.3	83.8
Adjustments according to IAS 8 [1)]	0.0	4.0	4.0
Currency translation	0.3	0.1	0.4
Additions	2.7	2.3	5.0
Retirements and disposals	0.0	(0.7)	(0.7)
Reclassifications	0.0	0.8	0.8
Cost at 31.12.2009	**20.5**	**72.8**	**93.3**
Accumulated amortisation at 31.12.2008	6.8	33.3	40.1
Adjustments according to IAS 8 [1)]	0.0	4.0	4.0
Currency translation	0.3	0.1	0.4
Amortisation charges	2.3	4.9	7.2
Impairment losses	0.5	0.2	0.7
Retirements and disposals	0.0	(0.5)	(0.5)
Reclassifications	0.0	0.1	0.1
Accumulated amortisation at 31.12.2009	**9.9**	**42.1**	**52.0**
Carrying amounts at 31.12.2009	**10.6**	**30.7**	**41.3**

1) Regarding adjustments in accordance with IAS 8, see "Accounting principles, general".

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

The carrying amount of intangible assets having an indefinite useful life is unchanged compared to the previous year, amounts to € 1.8 million and is attributed in full to the plants that manufacture isostatic products. It comprises 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.

Amortisation charges on intangible assets are included in the income statement items cost of sales with € 3.3 million (2009: € 3.5 million), sales and marketing costs with € 0.1 million (2009: € 0.1 million) and general and administration costs with € 3.8 million (2009: € 3.6 million). Gains from the reversal of impairment losses of € 4.8 million were recognised in the item reversal of impairment losses/impairment losses. In 2009, impairment losses of € 0.7 million were recorded in this item of the income statement.

Expenses recognised for research and development in 2010 totalled € 19.6 million (2009: € 17.4 million).

(4) Shares in associates

Like in the previous year, the RHI Group holds shares in three associates none of which is listed on a stock exchange. These shares developed as follows during the reporting year and the previous year:

in € million	2010	2009
Carrying amount at beginning of year	**12.4**	**14.1**
Share in profit	6.6	2.4
Dividends	(3.4)	(4.1)
Other changes in value (after taxes)	(0.1)	0.0
Carrying amount at year-end	**15.5**	**12.4**

As in the previous year, the goodwill included under shares in associates amounts to € 4.9 million.

Summarised financial information (not adjusted to reflect the percentage of ownership of the RHI companies) is as follows: assets € 29.6 million (31 December 2009: € 28.3 million), liabilities € 8.4 million (31 December 2009: € 13.3 million), revenues € 32.9 million (2009: € 20.0 million) and profit € 13.3 million (2009: € 4.8 million).

(5) Other non-current financial assets
The other non-current financial assets shown on the balance sheet comprise the following:

in € million	31.12.2010	31.12.2009
Investments - available for sale	7.8	6.3
Securities - available for sale	29.4	28.3
Prepayments on financial assets	0.0	2.3
Other non-current financial assets	**37.2**	**36.9**

Stopinc AG, Hünenberg, Switzerland, in which the subsidiary Didier-Werke AG, Wiesbaden, Germany, holds a stake of 50%, is carried at fair value in accordance with IAS 39, as the other shareholders do not support the preparation of financial statements in accordance with IFRS.

The impairment losses recognised to financial assets available for sale are as follows:

in € million	2010	2009
Accumulated impairment losses at beginning of year	**6.2**	**7.1**
Reversal of impairment losses	(1.1)	(0.9)
Accumulated impairment losses at year-end	**5.1**	**6.2**

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

in € million	31.12.2010	31.12.2009
Deferred tax assets	98.8	73.1
Deferred tax liabilities	(3.6)	(8.7)
Net position	**95.2**	**64.4**

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

in € million	2010	2009
Net position at beginning of year	**64.4**	**58.3**
Adjustments according to IAS 8 [1)]	0.0	1.0
Currency translation	1.7	0.8
Change to income statement	22.4	2.4
Recording without recognition through profit or loss	7.0	1.6
Effect of changes in tax rates	(0.3)	0.3
Net position at year-end	**95.2**	**64.4**

1) Regarding adjustments in accordance with IAS 8, see "Accounting principles, general".

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 carryforwards:

in € million	Tax loss carryforwards	Non-current assets	Personnel provisions	Other provisions	Other	Total
31.12.2009	**44.0**	**(25.2)**	**32.8**	**7.6**	**5.2**	**64.4**
Currency translation	0.8	(0.2)	0.3	0.0	0.8	1.7
Change to income statement	29.0	(5.2)	(0.1)	(1.1)	(0.2)	22.4
Recording without recognition through profit or loss	0.0	0.0	7.0	0.0	0.0	7.0
Effect of changes in tax rates	(0.1)	(0.2)	0.0	0.0	0.0	(0.3)
31.12.2010	**73.7**	**(30.8)**	**40.0**	**6.5**	**5.8**	**95.2**

in € million	Tax loss carryforwards	Non-current assets	Personnel provisions	Other provisions	Other	Total
31.12.2008	**41.0**	**(25.5)**	**33.0**	**9.5**	**0.3**	**58.3**
Adjustments according to IAS 8 [1)]	0.0	1.0	0.0	0.0	0.0	1.0
Currency translation	0.7	(0.3)	0.1	0.0	0.3	0.8
Change to income statement	2.3	(0.7)	(2.0)	(1.9)	4.7	2.4
Recording without recognition through profit or loss	0.0	0.0	1.6	0.0	0.0	1.6
Effect of changes in tax rates	0.0	0.3	0.1	0.0	(0.1)	0.3
31.12.2009	**44.0**	**(25.2)**	**32.8**	**7.6**	**5.2**	**64.4**

1) Regarding adjustments in accordance with IAS 8, see "Accounting principles, general".

As of 31 December 2010 subsidiaries that reported losses for the past year recognised net deferred tax assets totalling € 5.9 million (31 December 2009: € 5.9 million) on temporary differences and tax loss carryforwards. These assets are considered to be unimpaired because the companies concerned are expected to generate taxable income in the future.

Tax loss carryforwards in the RHI Group totalled € 626.3 million as of 31 December 2010 (31 December 2009: € 691.1 million). Deferred taxes were not recorded on € 334.8 million of this amount (31 December 2009: € 511.2 million). The main portion of the unrecognised tax losses can be carried forward indefinitely. Approx. € 4.3 million can be used until the year 2014, € 6.5 million until 2015 and € 24.9 million until 2016.

Deferred tax assets were not recognised on temporary differences of € 4.1 million (31 December 2009: € 6.0 million) as it is not sufficiently probable that they can be used.

Taxable temporary differences of € 19.3 million (31 December 2009: € 22.9 million) and deductible temporary differences of € 59.7 million (31 December 2009: € 76.3 million) were not recognised on shares in subsidiaries and associates because the corresponding distributions of profit or the sale of the investments are not expected in the foreseeable future.

Current assets
(7) Inventories
Inventories as presented on the balance sheet comprise the following:

in € million	31.12.2010	31.12.2009
Raw materials and supplies	131.9	95.6
Unfinished products	93.2	51.2
Finished products and goods	201.6	133.9
Prepayments made	5.9	6.0
Inventories	**432.6**	**286.7**

Inventories recognised by the RHI Group amounted to € 432.6 million as of 31 December 2010 (31 December 2009: € 286.7 million). Of this total, roughly € 4.0 million (31 December 2009: € 4.6 million) were carried at net realisable value. Impairment losses recognised during the reporting year 2010, netted out against reversals of impairment losses, amount to approx. € 9.9 million (2009: € 4.6 million).

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

in € million	31.12.2010	31.12.2009
Trade receivables	234.2	195.2
Receivables from long-term construction contracts	4.2	5.4
Receivables from associates	0.8	1.3
Other current receivables	64.3	44.5
Trade and other current receivables	**303.5**	**246.4**

Other current receivables comprise the following:

in € million	31.12.2010	31.12.2009
Taxes other than income taxes	38.9	22.3
Receivables employees	0.7	0.9
Prepaid expenses for mining sites	6.6	6.3
Other prepaid expenses	1.7	1.6
Other	16.4	13.4
Other current receivables	**64.3**	**44.5**

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 € 55.6 million as of 31 December 2010 (31 December 2009: € 58.1 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 recorded as a derecognition of receivables on the Group's balance sheet.

Trade receivables with a total nominal value of € 19.0 million were assigned for financial liabilities as of 31 December 2010 (31 December 2009: € 15.0 million).

For long-term construction contracts, cost incurred until 31 December 2010 amounting to € 16.0 million and contributions to earnings amounting to € 3.5 million were offset against prepayments received of € 15.3 million (31 December 2009: € 5.7 million), resulting in receivables from long-term construction contracts amounting to € 4.2 million (31 December 2009: € 5.4 million).

Valuation adjustments to trade and other current receivables developed as follows:

in € million	2010	2009
Accumulated valuation adjustments at beginning of year	**12.0**	**14.9**
Currency translation	0.5	0.2
Addition	1.6	2.0
Use	(0.8)	(0.7)
Reversal	(1.6)	(4.4)
Accumulated valuation adjustments at year-end	**11.7**	**12.0**

Expenses and income arising from valuation adjustments and write-offs of trade and other current receivables are included primarily under sales and marketing costs and general and administration costs.

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 secured by credit insurance, letters of credit and bank guarantees by customer segment:

in € million	31.12.2010	31.12.2009
Segment Steel	188.3	135.9
Segment Industrial	44.6	63.1
Segment Raw Materials	5.5	1.6
Trade receivables and receivables from construction contracts	238.4	200.6
Credit insurance and bank guarantees	(164.7)	(144.0)
Net credit exposure	**73.7**	**56.6**

The following table shows the carrying amounts of receivables denominated in the functional currency and in currencies other than the functional currency of the Group companies:

in € million	31.12.2010	31.12.2009
US dollar	59.9	50.1
Pound sterling	2.5	2.6
Other currencies	0.3	2.1
Other functional currencies	175.7	145.8
Trade receivables and receivables from construction contracts	**238.4**	**200.6**

The classification of receivables by days outstanding is as follows:

in € million	31.12.2010	31.12.2009
Neither impaired nor past due at balance sheet date	195.1	178.0
Not impaired at balance sheet date and past due in the following time frames		
Less than 30 days	28.7	16.2
Between 30 and 59 days	6.3	3.6
Between 60 and 89 days	5.4	0.2
More than 90 days	2.9	2.6
Trade receivables and receivables from construction contracts	**238.4**	**200.6**

With respect to 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 € 43.3 million that were overdue as of the balance sheet date (31 December 2009: € 22.6 million) because the risk of default was mainly covered by credit insurance as well as bank guarantees and letters of credit.

(9) Other financial assets and liabilities
Other financial assets are classified as follows:

in € million	31.12.2010	31.12.2009
Shares - available for sale	1.6	1.6
Financial assets - held for trading	0.4	1.1
Other financial assets	**2.0**	**2.7**

Other financial liabilities are classified as "held for trading" and amount to € 1.8 million (31 December 2009: € 1.4 million).

The fair values of the current forward exchange contracts as of the balance sheet date are recognised in the financial assets and liabilities held for trading and are as follows:

	31.12.2010		31.12.2009	
	Nominal value in million	Market value in € million	Nominal value in million	Market value in € million
EUR purchase / CNY sale	EUR 5.0	(0.2)	EUR 31.3	0.9
USD purchase / CNY sale	USD 15.0	(0.4)	USD 40.0	(0.3)
EUR purchase / INR sale	EUR 4.0	(0.5)	-	-
EUR purchase / USD sale	-	-	USD 36.0	(1.1)
Forward exchange contracts		**(1.1)**		**(0.5)**

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

in € million	31.12.2010	31.12.2009
Cash on hand	0.1	0.1
Cheques	0.5	2.2
Cash at banks	58.2	137.5
Cash and cash equivalents	**58.8**	**139.8**

Foreign exchange regulations in various countries restrict the use of cash and cash equivalents totalling € 4.2 million (31 December 2009: € 2.5 million).

Equity and Liabilities

(11) Equity
Share capital
The share capital of RHI AG totalled € 289,376,212.84 and is comprised of 39,819,039 zero par value bearer shares with voting rights, unchanged to the previous year. One share grants a calculated share of € 7.27 in capital stock.

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

Conditional capital
The general meeting of the company on 15 February 2002 adopted the resolution 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 grant 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 exercised their right to the subscription of shares. 1 January 2007 was defined as the first possible date to exercise the conversion right.

In accordance with the authorisation for the exercise of conversion rights as defined in § 5 (2) of the articles of association as amended, the holders of 318 tranche A convertible bonds filed statements of conversion in 2009. This led to the issue of 1,749,000 shares of bearer stock by the Management Board. The conditional capital was thus used completely.

Authorised capital 2010
The Management Board was authorised by resolution of the annual general meeting of RHI AG on 30 April 2010, in accordance with § 169 of the Stock Corporation Act, to increase share capital, without any further consent by the annual general meeting until 30 April 2015 – also in several tranches – for a capital contribution by up to € 43,406,425.75 by issuing up to 5,972,855 no-par bearer shares with voting rights and to determine the issue price, the issue conditions and further details regarding the execution of the capital increase.

Authorised capital 2008
The annual general meeting of 29 May 2008 authorised the Management Board in accordance with § 169 of the Stock Corporation Act to increase share capital, 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 for a cash contribution or contribution in kind.

Authorised capital 2002
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 no-par bearer shares with voting rights at an issue price of € 7.27 per share.

The capital increase will be executed against a contribution in kind 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 2002 to cover the issue of up to € 50,122,453.68 on or before 30 April 2010.

Following a resolution of the Management Board of 16 September 2009 and the approval of the Supervisory Board of 17 September 2009, 26 individual bond certificates from tranche B were converted into 143,000 shares at a price of € 7.27 (rounded) based on the authorisation of 15 February 2002 to increase share capital. The conditional capital 2002 was thus fully used.

Additional paid-in capital
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 2010, unchanged compared to the previous year.

Fair value reserves
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
Currency translation reserves include the accumulated currency translation differences arising from investments in foreign subsidiaries as well as unrealised currency translation differences resulting from non-current shareholder loans.

Accumulated results
The item 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 item accumulated results also includes actuarial gains and losses arising from defined benefit pension plans and termination benefits after consideration of deferred taxes.

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

Non-controlling interests
The equity attributable to non-controlling interests fell from € 4.5 million to € 0.5 million in the financial year 2010. This is essentially due to the squeeze-out of the minority shareholders of Didier-Werke AG, Wiesbaden, Germany.

Explanations regarding the adjustments in accordance with IAS 8 can be found under "Accounting principles, general".

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

In the financial year 2010, equity rose from € 206.1 million to € 320.9 million. The increase by € 114.8 million was essentially attributable to an increase in the items of currency translation reserves and accumulated results. With a balance sheet total of € 1,448.7 million (31 December 2009: € 1,272.2 million), the equity ratio amounted to 22.2% as of 31 December 2010 (31 December 2009: 16.2%).

Capital management is controlled by net gearing, which is defined as net debt divided by equity. Interest-bearing net debt represents interest-bearing liabilities minus interest-bearing assets. Net gearing based on operating equity fell from 124.2 to 106.3% in 2010.

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

(13) Financial liabilities

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

in € million	31.12.2010	31.12.2009 [1]	31.12.2008 [1]
Liabilities to financial institutions	208.0	209.0	294.8
Other loans	28.3	28.7	27.7
Non-current financial liabilities	**236.3**	**237.7**	**322.5**
Liabilities to financial institutions	159.1	154.8	117.0
Bank bills	0.0	0.4	0.1
Other loans	4.4	2.8	4.4
Current financial liabilities	**163.5**	**158.0**	**121.5**
Financial liabilities	**399.8**	**395.7**	**444.0**

1) Explanations on the adjusted comparative figures for 2009 and 2008 are provided under "Accounting principles, general'.

Non-current liabilities to financial institutions have a remaining term of two to five years, unchanged in comparison to the previous year.

Liabilities to financial institutions also comprise export financing totalling € 241.5 million (31 December 2009: € 260.0 million).

As of 31 December 2010, € 92.8 million (31 December 2009: € 133.2 million) of unused, immediately available credit lines were available to the RHI Group.

65% of the liabilities to financial institutions carry fixed interest, 35% carry variable interest.

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

31.12.2010

Interest terms fixed until	Effective annual interest rate	Currency	Carrying amount in € million
2011	Variable interest rate + margin	EUR	19.0
	EURIBOR + margin	EUR	50.1
	LIBOR + margin	CAD	45.6
	LIBOR + margin	USD	8.4
	1.50% + margin	EUR	1.0
	Interbank rate + margin	BRL	4.3
	6.36%	CLP	3.0
	Interbank rate + margin	Various	1.8
2012	2.50% + margin	EUR	25.1
	2.18% + margin	EUR	10.0
2013	2.54% + margin	EUR	139.6
	1.52% + margin	EUR	1.4
2015	2.40% + margin	EUR	33.8
	1.147% + margin	EUR	24.0
			367.1

31.12.2009

Interest terms fixed until	Effective annual interest rate	Currency	Carrying amount in € million
2010	Variable interest rate + margin	EUR	15.0
	EURIBOR + margin	EUR	58.7
	LIBOR + margin	CAD	20.0
	LIBOR + margin	USD	7.9
	2.40% + margin	EUR	33.8
	1.52% + margin	EUR	1.2
	Interbank rate + margin	Various	1.9
2011	1.50% + margin	EUR	2.0
2012	2.50% + margin	EUR	25.1
	2.18% + margin	EUR	10.0
2013	2.54% + margin	EUR	186.2
	1.52% + margin	EUR	2.0
			363.8

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, € 190.4 million (31 December 2009: € 243.6 million) are secured by liens on real estate and other collateral. Other pledged collateral comprises:

The pledge of shares and investments in Didier-Werke AG, Wiesbaden, Germany; Veitsch-Radex GmbH, Vienna; Veitsch-Radex GmbH & Co OG, 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 OG, Vienna, and RHI AG; as well as the assignment of receivables amounting to € 19.0 million.

(14) Personnel provisions
Personnel provisions include the following provisions:

in € million	31.12.2010	31.12.2009
Pensions	237.4	222.8
Termination benefits	51.9	46.5
Other personnel provisions	19.2	18.2
Personnel provisions	**308.5**	**287.5**

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

	31.12.2010	31.12.2009
Interest rate	4.5% - 7.75%	4.0% - 9,0%
Expected yield on plan assets	3.0% - 8.0%	1.8% - 9.0%
Salary increase	3.0% - 4.75%	2.0% - 5.0%
Pension increase	2.0% - 4.25%	2.0% - 4.34%
Discounts for employee turnover	0 - 5.0%	0 - 5.0%
Retirement age	55 – 65 years	55 – 65 years
Mortality tables		
Austria	AVÖ-P 2008, Ang	AVÖ-P 2008, Ang
Germany	Heubeck 2005 G	Heubeck 2005 G
USA	RP2000	RP2000

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	31.12.2010	31.12.2009
Present value of unfunded pension obligations	217.5	204.4
Present value of wholly or partly funded pension obligations	86.5	81.8
Fair value of plan assets	(66.6)	(63.4)
Provisions for pensions	**237.4**	**222.8**

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

in € million	2010	2009
Present value of pension obligations at beginning of year	**286.2**	**285.9**
Currency translation	3.2	1.3
Current service cost	2.9	2.1
Interest cost	15.1	16.0
Actuarial losses	20.5	7.5
Benefits paid	(23.9)	(26.6)
Present value of pension obligations at year-end	**304.0**	**286.2**

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

in € million	2010	2009
Fair value of plan assets at beginning of year	**63.4**	**61.3**
Currency translation	2.1	1.2
Expected return on plan assets	2.5	3.1
Actuarial gains	0.6	1.3
Benefits paid	(5.4)	(8.0)
Contributions to external funds	3.4	4.5
Fair value of plan assets at year-end	**66.6**	**63.4**

As of the balance sheet date, the fund assets were comprised of 51% (31 December 2009: 52%) insurance, 7% (31 December 2009: 7%) of shares and 42% (31 December 2009: 41%) of fixed-interest securities.

The actual income from the external fund assets equal € 3.1 million (2009: € 4.4 million).

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

in € million	2010	2009
Provisions for pensions at beginning of year	**222.8**	**224.6**
Currency translation	1.1	0.1
Pension cost	15.5	15.0
Actuarial losses	19.9	6.2
Benefits paid	(18.5)	(18.6)
Contributions to external funds	(3.4)	(4.5)
Provisions for pensions at year-end	**237.4**	**222.8**

Payments into the plan are expected to total € 21.2 million in the financial year 2011. 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	2010	2009
Current service cost	2.9	2.1
Interest cost	15.1	16.0
Expected return on plan assets	(2.5)	(3.1)
Pension cost	**15.5**	**15.0**

The current service cost is recognised in the personnel expenses, whereas the interest portion of the addition to the provision as well as the expected return on plan assets are included under financial results.

The following table shows the development of the present value of pension obligations, plan assets and financing status:

in € million	31.12.2010	31.12.2009	31.12.2008	31.12.2007	31.12.2006
Present value of pension obligations	304.0	286.2	285.9	309.0	323.2
Fair value of plan assets	(66.6)	(63.4)	(61.3)	(67.3)	(63.3)
Deficit	**237.4**	**222.8**	**224.6**	**241.7**	**259.9**

The actuarial losses recognised directly in equity are shown below:

in € million	2010	2009
Actuarial losses at beginning of year	**30.1**	**23.9**
Losses of the year		
RHI AG and subsidiaries	19.9	6.2
Associates	0.1	0.0
Actuarial losses at year-end	**50.1**	**30.1**

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

in %	31.12.2010	31.12.2009	31.12.2008	31.12.2007	31.12.2006
Gains/(losses) in % of the present value of the obligation	0.2	(0.4)	0.8	(2.9)	(1.7)
Gains/(losses) in % of plan assets	0.9	2.1	(5.2)	(0.1)	(1.4)

Provisions for termination benefits

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

	31.12.2010	31.12.2009
Interest rate	4.5% - 8.75%	5.3% - 9.5%
Salary increase	3.0% - 6.5%	3.0% - 6.75%
Discounts for employee turnover	0 - 4.0%	0 - 4.0%
Retirement age	55 – 65 years	55 – 65 years
Mortality tables		
Austria	AVÖ-P 2008, Ang	AVÖ-P 2008, Ang
Italy	RG48	RG48

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	2010	2009
Present value of termination benefit obligations at beginning of year	**46.5**	**49.9**
Currency translation	0.3	0.2
Current service cost	1.8	2.0
Interest cost	2.6	2.8
Actuarial losses/(gains)	5.2	(0.3)
Benefits paid	(4.5)	(8.1)
Present value of termination benefit obligations at year-end	**51.9**	**46.5**

Current service cost are included under personnel expenses. Interest costs, however, are recognised in the financial results.

Payments for termination benefits are expected to total € 1.8 million in 2011.

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

in € million	31.12.2010	31.12.2009	31.12.2008	31.12.2007	31.12.2006
Present value of termination benefit obligations	51.9	46.5	49.9	52.8	48.9

The following actuarial gains and losses were included under other results recognised in the statement of comprehensive income:

in € million	2010	2009
Actuarial losses at beginning of year	**11.8**	**12.1**
Losses/(gains) of the year		
RHI AG and subsidiaries	5.1	(0.3)
Associates	0.1	0.0
Actuarial losses at year-end	**17.0**	**11.8**

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

in %	31.12.2010	31.12.2009	31.12.2008	31.12.2007	31.12.2006
(Losses)/gains in % of the present value of the obligation	(1.3)	0.2	(1.8)	(5.7)	(5.1)

Other personnel provisions
This item developed as follows during the reporting year:

in € million	Service anniversary bonuses	Lump-sum settlements	Payments to semi-retirees	Total
31.12.2009	**12.0**	**0.7**	**5.5**	**18.2**
Use	(1.0)	(0.9)	(3.5)	(5.4)
Addition	2.3	1.7	2.4	6.4
31.12.2010	**13.3**	**1.5**	**4.4**	**19.2**

(15) Other non-current provisions
The non-current provisions included on the balance sheet amounting to € 3.3 million (31 December 2009: € 3.2 million) 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 obligations. These obligations are carried at the expected amount required for settlement because the interest effect that would result from discounting is considered immaterial. These provisions are currently not expected to be used in the following year.

(16) Trade and other current payables
Other non-current liabilities of € 6.3 million (31 December 2009: € 5.7 million) include deferred income for subsidies received from third parties of € 5.0 million (31 December 2009: € 4.5 million). These subsidies are designed primarily to support capital expenditure. The current portion of recognised subsidies equals € 0.3 million as in the previous year and is included under other current payables. The grantors of the subsidies were provided with proof of compliance with the required conditions, which include certain investment volumes or creation and maintenance of jobs.

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

in € million	31.12.2010	31.12.2009
Trade payables	186.6	154.1
Prepayments received on orders	17.1	22.4
Accounts payable to associates	1.0	1.0
Other current payables	88.5	87.7
Trade and other current payables	**293.2**	**265.2**

Other current payables comprise the following items:

in € million	31.12.2010	31.12.2009
Taxes other than income taxes	11.5	10.1
Liabilities employees	48.3	42.5
Other	28.7	35.1
Other current payables	**88.5**	**87.7**

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

(17) 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	Restructuring costs, other	Total
31.12.2009	**7.8**	**21.4**	**18.7**	**21.8**	**1.8**	**71.5**
Currency translation	0.0	0.2	0.0	0.1	0.1	0.4
Use	0.0	(3.1)	0.0	0.0	(0.8)	(3.9)
Reversal	(0.1)	(3.4)	0.0	(2.0)	0.0	(5.5)
Addition	0.8	3.0	1.5	1.4	7.6	14.3
Reclassifications	(2.5)	0.0	0.0	0.0	2.5	0.0
31.12.2010	**6.0**	**18.1**	**20.2**	**21.3**	**11.2**	**76.8**

The item demolition and disposal costs, environmental damages essentially consists of recultivation and similar obligations.

Provisions for warranties include provisions for claims arising from warranties and other similar obligations and contract loss provisions.

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

The item claims for compensation shows provisions for possible claims arising from contractual or constructive obligations to provide compensation for damages or similar payments.

The item restructuring costs, other predominantly includes provisions for restructuring as well as several individually immaterial provisions, which cannot be allocated to any of the other provision categories. Provisions for restructuring mainly consist of obligations to employees for the termination of employment and expenses for demolition costs and other costs related to giving up production facilities, including costs related to the termination of leasing contracts.

(18) Contingent liabilities

The components of contingent liabilities are shown below:

in € million	31.12.2010	31.12.2009
Liabilities from sureties	5.2	6.1
Liabilities from guarantees	22.0	21.7
Other	0.0	0.2
Contingent liabilities	**27.2**	**28.0**

Contingent liabilities as of 31 December 2010 contain contingent liabilities for discontinued operations amounting to € 1.9 million (31 December 2009: € 2.9 million).

(19) Other financial obligations

Other financial obligations consist of the following items:

	Total	Remaining term		
in € million	31.12.2010	up to 1 year	2 to 5 years	over 5 years
Obligations from rental and leasing contracts	49.4	9.4	26.8	13.2
Capital commitments	5.4	5.4	0.0	0.0
Miscellaneous financial obligations	19.7	9.6	8.2	1.9
Other financial obligations	**74.5**	**24.4**	**35.0**	**15.1**

	Total	Remaining term		
in € million	31.12.2009	up to 1 year	2 to 5 years	over 5 years
Obligations from rental and leasing contracts	44.0	10.0	25.7	8.3
Capital commitments	8.9	8.9	0.0	0.0
Miscellaneous financial obligations	17.3	3.6	13.7	0.0
Other financial obligations	**70.2**	**22.5**	**39.4**	**8.3**

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. As a rule the term of leasing contracts amounts to three to seven years.

Miscellaneous financial obligations are primarily related to possible commission obligations and an obligation regarding the acquisition of the remaining shares in an investment.

Notes to Individual Items on the Income Statement

Explanations on the reclassifications made in the income statement can be found under "Accounting principles, general".

(20) Revenues
Revenues are classified as follows:

in € million	2010	2009
Revenues from the sale of goods and the rendering of services	1,473.6	1,180.5
Revenues from long-term construction contracts	49.3	53.3
Revenues from the sale of emission rights	0.0	3.1
Revenues	**1,522.9**	**1,236.9**

(21) Cost of sales
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 including scheduled depreciation on production equipment, the amortisation of intangible assets and impairment charges to inventories. Moreover, cost of sales also includes the costs of services received or provided by the Group.

(22) Sales and marketing costs
This item includes personnel expenses for the distribution staff, commissions, as well as scheduled depreciation and other operating expenses related to the distribution services and units.

(23) General and administration costs
General and administration costs consist primarily of personnel expenses for the administrative functions as well as expenses for research and non-capitalisable development costs as well as legal and consulting costs.

(24) Other income
The individual components of this item are shown in the following table:

in € million	2010	2009
Gains from the disposal of property, plant and equipment and intangible assets	1.9	0.5
Insurance recovery	9.9	0.0
Foreign exchange gains	1.1	0.0
Miscellaneous	4.6	7.3
Other income	**17.5**	**7.8**

The earthquake in Chile in late February 2010 caused major damage to the RHI plant in Santiago. Expenses resulting from derecognition of destroyed property, plant and equipment and inventories amount to € 3.4 million. These expenses are netted against insurance recovery for property damage, operational interruption and other damage in the amount of € 13.3 million and are shown under other income. Further expenses are included in the individual items of the consolidated income statement.

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.

(25) Other expenses
Other expenses include:

in € million	2010	2009
Losses from the disposal of property, plant and equipment and intangible assets	0.9	1.1
Losses from derivative financial instruments	5.6	0.0
Foreign exchange losses	0.0	5.7
Miscellaneous expenses	3.2	2.0
Income from the reversal of provisions	(0.8)	(0.6)
Other expenses	**8.9**	**8.2**

Losses from derivative financial instruments include net losses arising from forward exchange contracts of € 5.2 million (2009: net gains of € 2.3 million), as well as net losses from the valuation of embedded derivatives in contracts and embedded derivatives in trade receivables denominated in a currency other than the functional currency of the RHI Group amounting to € 0.4 million (2009: net losses € 2.3 million). The net results from forward exchange contracts result primarily from the realisation of contracts.

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.

(26) Reversal of impairment losses/impairment losses
In order to increase transparency, the balance of impairment losses and reversal of impairment losses of property, plant and equipment and intangible assets is shown below the operating result and amounts to € 21.0 million (2009: € (9.1) million) for the reporting year 2010. It includes the reversal of impairment losses of € 22.5 million and impairment losses of € (1.5) million (2009: € (9.1) million).

A reversal of impairment losses of € 5.4 million was recognised in the income statement 2010 for the property, plant and equipment of a production site in Germany as production was resumed at this plant due to the increased demand for magnesia carbon products and a change in the logistic strategy for such products.

Other reversals of impairment losses of € 17.1 million recognised in profit and loss were made due to capacity extensions at RHI's plants in China and the related increase in the consumption of self-produced raw materials.

Impairment losses of € 1.5 million result from the impairment of real estate to the fair value.

(27) Restructuring expenses
Restructuring expenses amount to € 33.8 million (2009: € 15.1 million) and are attributable to the adjustment of production capacity throughout the Group and a comprehensive reorganisation of sales and marketing, and administration. Of this total, € 13.3 million are related to impairment losses on property, plant and equipment, € 4.3 million to the write-down of inventories and € 16.2 million (2009: € 15.1 million) to other cash restructuring cost, especially social plans and other personnel costs, as well as leasing and consulting expenses. Impairment losses are mainly related to the closure of the plant in Bécancour, Canada, in the third quarter of 2010 and valuation adjustments of technical equipment and machinery of a raw material plant. The main part of the restructuring costs is related to the regions EMEA with a total of € 21.9 million and North America with € 10.3 million.

(28) Interest income
Interest income includes income from securities and non-current receivables amounting to € 0.4 million (2009: € 1.2 million) as well as other interest and similar income amounting to € 2.5 million (2009: € 1.4 million).

(29) Other financial results
The other financial results are classified as follows:

in € million	2010	2009
Income from investments	0.7	0.3
Reversal of impairment losses of financial assets	1.1	0.9
Expected return on plan assets	2.5	3.1
Interest expense for personnel provisions	(18.2)	(19.8)
Other financial results	**(13.9)**	**(15.5)**

(30) Income taxes
Income taxes in the Group consist of the following items:

in € million	2010	2009
Current tax expense	22.1	6.5
Deferred tax (income)/expense relating to the origination and reversal of		
temporary differences	6.8	(0.4)
tax loss carryforwards	(28.9)	(2.3)
	(22.1)	(2.7)
Income taxes	**0.0**	**3.8**

The arithmetic income tax expense, which would result from the application of the Austrian corporate tax rate of 25% on the profit before tax from continuing operations, amounts to € 26.1 million. The reasons for the difference between the arithmetic income tax and the income tax reported are shown below:

in € million	2010	2009
Profit before income taxes	**104.6**	**25.2**
Arithmetic tax expense	**26.1**	**6.3**
Different foreign tax rates	(2.2)	1.2
Expenses not deductible for tax purposes, non-creditable withholding taxes	11.0	7.5
Income not subject to tax	(3.8)	(2.4)
Unrecognised tax losses and temporary differences of the financial year	4.3	3.3
Reduction in actual income tax expense due to utilisation of previously unrecognised tax losses and temporary differences	(12.2)	(2.5)
Reduction in deferred income tax expense due to capitalisation of previously unrecognised tax losses and temporary differences	(28.6)	(2.1)
Deferred tax expense/(income) due to changes in tax rates	0.3	(0.3)
Deferred income tax relating to prior periods	(0.4)	(0.6)
Current income tax relating to prior periods	2.3	(11.2)
Other	3.2	4.6
Recognised tax expense	**0.0**	**3.8**

The reduction in deferred income tax expense due to previously unrecognised tax losses and temporary differences is essentially related to the additional capitalisation of deferred taxes for tax loss carryforwards amounting to € 27.8 million at RHI AG because the estimate of future taxable profits within the planning period defined for the accounting and measurement of deferred taxes has changed.

(31) Profit from discontinued operations
Profit from discontinued operations before income taxes amounting to € 1.1 million corresponds to profit after income taxes and is attributable to the equity holders of RHI AG in its entirety.

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

in € million	2010	2009
Cost of material and other production services	874.8	596.1
Personnel costs	345.1	305.5
Scheduled depreciation of property, plant and equipment and amortisation of other intangible assets	53.7	50.6

(33) Personnel costs
The individual components of personnel costs are listed below:

in € million	2010	2009
Wages and salaries	259.5	226.2
Pensions		
Defined benefit plans	2.9	2.1
Defined contribution plans	1.9	1.9
Termination benefits		
Defined benefit plans	1.8	2.0
Defined contribution plans	1.5	1.4
Other expenses	9.4	6.6
Fringe benefits	68.1	65.3
Personnel costs	**345.1**	**305.5**

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 consolidated 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.

No cash inflows or outflows related to discontinued operations occurred in the reporting period. The cash flow statement presented therefore refers to the continuing operations of the RHI Group.

(34) Net cash flow from operating activities
Net cash flow from operating activities shows the change in cash and cash equivalents based on profit after income taxes, which is adjusted for non-cash income and expenses (primarily depreciation and reversal of impairment losses) and results that are allocated to cash flows from investing or financing activities as well as the changes in the commitment of funds in the working capital and actual tax payments.

Net interest expenses for social capital amounting to € 15.7 million (2009: € 16.7 million) is accounted for in the item other non-cash changes and included in changes in personnel provisions.

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

Payments have not been received yet for the sale of non-current assets totalling € 0.7 million (2009: € 0.8 million).

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.

(36) Net cash flow from financing activities
Net cash flow from financing activities includes outflows in the form of dividend payments as well as inflows resulting from the proceeds and repayments of loans and other borrowings.

Interest expense payments are allocated to cash flow from financing activities.

In the year 2009 the conversion of convertible bonds amounting to € 13.9 million was not shown separately in the cash flow statement because it had no cash effect.

Other Disclosures

(37) Segment reporting
Explanations on reclassifications are provided under "Accounting principles, general".

Segment reporting by operating company divisions
The following table shows the financial data for the operating segments for the year 2010:

in € million	Steel	Industrial	Raw Materials	Elimination/ Unallocated assets	Group
External revenues	977.3	517.8	27.8	0.0	1,522.9
Intragroup revenues	0.0	0.0	137.4	(137.4)	0.0
Segment revenues	**977.3**	**517.8**	**165.2**	**(137.4)**	**1,522.9**
Operating result	**62.7**	**74.3**	**1.8**	**0.0**	**138.8**
Reversal of impairment losses/(impairment losses)	4.4	(0.4)	17.0	0.0	21.0
Restructuring costs	(5.4)	(13.3)	(15.1)	0.0	(33.8)
Operating results (EBIT)	**61.7**	**60.6**	**3.7**	**0.0**	**126.0**
Depreciation and amortisation charges	(23.9)	(19.4)	(10.4)	0.0	(53.7)
Results from associates	0.0	0.0	6.6	0.0	6.6
Segment assets	539.4	292.4	334.5	266.9	1,433.2
Shares in associates	0.2	0.0	15.3	0.0	15.5
					1,448.7
Investments in property, plant and equipment and intangible assets	24.3	28.4	4.7	0.0	57.4

The operating segments of the previous year are shown in the following table:

in € million	Steel	Industrial	Raw Materials	Elimination/ Unallocated assets	Group
External revenues	703.6	513.6	19.7	0.0	1,236.9
Intragroup revenues	0.0	0.0	115.4	(115.4)	0.0
Segment revenues	**703.6**	**513.6**	**135.1**	**(115.4)**	**1,236.9**
Operating result	**2.7**	**64.6**	**11.7**	**0.0**	**79.0**
Impairment losses	(1.6)	(3.8)	(3.7)	0.0	(9.1)
Restructuring costs	(7.8)	(6.6)	(0.7)	0.0	(15.1)
Operating results (EBIT)	**(6.7)**	**54.2**	**7.3**	**0.0**	**54.8**
Depreciation and amortisation charges	(23.8)	(20.4)	(6.4)	0.0	(50.6)
Results from associates	0.0	0.0	2.4	0.0	2.4
Segment assets	249.0	122.9	115.4	772.5	1,259.8
Shares in associates	0.2	0.0	12.2	0.0	12.4
					1,272.2
Investments in property, plant and equipment and intangible assets	17.2	7.5	16.8	0.0	41.5

Revenues amounting to € 195.9 million (2009: € 136.7 million) mainly included in the Steel segment were realised with a customer in 2010.

The segment assets include the external receivables and inventories and – starting in the financial year 2010 – property, plant and equipment, goodwill and other intangible assets available to operating segments and reported to the management for control and measurement. Shares in associates are allocated to the segments. All other assets are recognised under unallocated assets.

When allocating the revenues to product groups, a distinction is made between shaped and unshaped products and other revenues. Other includes revenues from the provision of services as well as the sale of non-Group products.

In the reporting year, revenues are classified by product groups as follows:

in € million	Steel	Industrial	Raw Materials	Group
Shaped products	611.3	384.5	0.0	995.8
Unshaped products	270.4	48.8	27.8	347.0
Other	95.6	84.5	0.0	180.1
Revenues	**977.3**	**517.8**	**27.8**	**1,522.9**

In 2009, revenues were classified by product groups as follows:

in € million	Steel	Industrial	Raw Materials	Group
Shaped products	429.7	396.7	0.0	826.4
Unshaped products	213.1	44.1	18.9	276.1
Other	60.8	72.8	0.8	134.4
Revenues	**703.6**	**513.6**	**19.7**	**1,236.9**

Segment reporting by countries
Revenues are classified by customer sites as follows:

in € million	2010	2009
Austria	33.2	29.4
Germany	152.6	129.2
USA	123.8	96.9
Italy	106.8	76.6
Mexico	104.5	71.8
PR China	98.3	62.7
India	75.4	52.9
Canada	64.5	68.5
Russia	51.5	35.9
France	43.6	35.3
Brazil	37.9	12.9
Turkey	35.1	28.2
Other countries (each below € 35.0 million)	595.7	536.6
Revenues	**1,522.9**	**1,236.9**

Property, plant and equipment and intangible assets are classified by the respective sites of the Group companies as follows:

in € million	31.12.2010	31.12.2009
Austria	155.9	165.0
PR China	142.6	102.9
Germany	81.2	80.5
Other countries	115.6	118.8
Property, plant and equipment and intangible assets	**495.3**	**467.2**

(38) 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.

	2010	2009
Profit attributable to equity holders of RHI AG (in € million)	104.8	20.9
Weighted average number of shares	39,819,039	38,065,292
Basic earnings per share (in €)	**2.63**	**0.55**

The share of profit attributable to the shareholders of RHI AG is based on profit of € 104.6 million (2009: € 21.4 million) from continuing operations plus the proportional share of loss attributable to non-controlling interests of € 0.2 million (2009: profit € 0.5 million). Basic earnings per share for the financial year 2010 correspond to diluted earnings per share as the convertible bonds had been fully converted as of 31 December 2009.

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. Diluted earnings per share for the year 2009 are calculated as follows:

	2009
Weighted average number of shares	38,065,292
Potential number of shares from convertible bonds	1,753,747
Number of diluted shares	39,819,039
Diluted earnings per share (in €)	**0.52**

Dividend
In accordance with the Stock Corporation Act the dividend payable to the shareholders of RHI AG is based on accumulated profit as shown in the annual financial statements, which are prepared in accordance with the Austrian Commercial Code. At the annual general meeting of the year 2011, the Management Board will propose a dividend of € 0.50 per share, which corresponds to a pay-out totalling € 19.9 million.

Dividend payments to the shareholders of RHI AG have no effects on income taxes for the RHI Group.

(39) Additional disclosures on financial instruments

Financial assets and liabilities at (amortised) cost

The following table shows the carrying amounts and fair values of the financial assets and liabilities that are carried at (amortised) cost:

in € million	31.12.2010 Carrying amount	31.12.2010 Fair value	31.12.2009 Carrying amount	31.12.2009 Fair value
Financial assets				
Prepayments on financial assets	0.0	0.0	2.3	2.3
Non-current receivables	0.3	0.3	2.8	2.8
Trade and other current receivables	303.5	303.5	246.4	246.4
Cash and cash equivalents	58.8	58.8	139.8	139.8
Financial liabilities				
Non-current financial liabilities	213.9	215.4	217.6	219.4
Current financial liabilities	159.9	160.6	155.4	156.0
Trade and other current payables	293.2	293.2	265.2	265.2

The remaining terms of trade receivables, other receivables and liabilities as well as cash and cash equivalents are generally short. Therefore, the carrying amounts 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 comparable 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	31.12.2010	31.12.2009 [1)]
Financial assets		
Securities - available for sale	29.4	28.3
Financial assets - held for trading	0.4	1.1
Investments - available for sale	7.8	6.3
Shares - available for sale	1.6	1.6
Financial liabilities		
Non-current financial liabilities	22.4	20.1
Current financial liabilities	3.6	2.6
Financial liabilities - held for trading	1.8	1.4

1) Explanations on the adjusted comparative figures for 2009 are provided under "Accounting principles, general"

The fair value of securities available for sale is based on the market prices as of the balance sheet date.

The fair value of financial assets held for trading and liabilities mainly corresponds to the market value of the forward exchange contracts as well as the derivatives in orders and embedded derivatives in trade receivables denominated in a currency other than the functional currency of the RHI Group. They are valued based on quoted forward rates.

The fair value of investments and shares available for sale that are not publicly traded is calculated by discounting the expected cash flows or determined on the basis of similar transactions.

The fair value of financial liabilities is calculated as the present value of discounted future cash flows.

Net results by valuation category in accordance with IAS 39
The effect of financial instruments on the income and expenses recognised during 2010 and 2009 is shown in the following table, classified according to the valuation categories defined in IAS 39:

in € million	2010	2009
Net gain on financial assets classified as available for sale	2.1	2.3
Net loss from loans and receivables as well as financial liabilities	(13.4)	(21.0)
Net loss on financial assets and financial liabilities classified as held for trading	(5.6)	0.0

The net gain on financial assets available for sale comprises income from securities, dividends and income from reversals of impairment losses. As in the previous year, net results do not include any changes in the fair value of financial assets available for sale that were transferred from equity to the income statement.

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 loss arising from 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 accordance with 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 primary monetary financial instruments include trade receivables and trade payables, cash and cash equivalents, and financial liabilities recognised on the balance sheet. Equity instruments held are not monetary and are therefore not linked with any foreign exchange risk in the sense of IFRS 7.

The majority of foreign currency financial instruments in the RHI Group result from operating activities, above all from intragroup 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.

The following table shows the foreign currency positions of the RHI Group in the major currencies as of 31 December 2010:

in € million	USD	EUR	GBP	Other	Total
Financial assets	290.0	13.7	8.0	42.1	353.8
Financial liabilities and provisions	(274.3)	(47.6)	(35.7)	(12.2)	(369.8)
Net foreign currency position	**15.7**	**(33.9)**	**(27.7)**	**29.9**	**(16.0)**

The foreign currency positions as of 31 December 2009 are as follows:

in € million	USD	EUR	MXN	Other	Total
Financial assets	229.6	10.2	0.0	31.9	271.7
Financial liabilities and provisions	(224.0)	(37.2)	(21.2)	(31.5)	(313.9)
Net foreign currency position	**5.6**	**(27.0)**	**(21.2)**	**0.4**	**(42.2)**

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 Group companies enter 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 positions 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% increase or decrease in the relevant functional currency versus the following major currencies as of 31 December 2010 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/(loss)	Equity	Gain/(loss)	Equity
US dollar	(4.0)	(4.0)	4.7	4.7
Euro	3.0	3.0	(4.0)	(4.0)
Pound sterling	1.3	0.9	(1.6)	(1.1)
Other currencies	(3.1)	(9.3)	3.7	11.2

The hypothetical effect on profit or loss as of 31 December 2009 can be summarised as follows:

	Appreciation of 10%		Devaluation of 10%	
in € million	Gain/(loss)	Equity	Gain/(loss)	Equity
US dollar	(0.8)	(0.9)	0.3	0.4
Euro	1.2	1.2	(2.5)	(2.5)
Mexican peso	1.9	0.0	(2.4)	0.0
Other currencies	(0.1)	(4.3)	0.0	5.2

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

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 result-related sensitivity analysis. If the market interest rate as of 31 December 2009 had been 100 basis points higher or lower, the interest results would have been € 0.7 million (31 December 2009: € 0.4 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 amounting to € 28.3 million (31 December 2009: € 27.2 million), which were purchased above all as coverage for employee-related provisions. The market value of these shares is influenced by fluctuations on the worldwide volatile international stock and bond markets.

(40) Expenses for the Group auditor

The fee for the activity of the Group auditor Deloitte Audit Wirtschaftsprüfungs GmbH, which was expensed in accordance with § 266 para 11 UGB, amounted to € 0.8 million in 2010 (2009: € 0.4 million). The fee included € 0.2 million (2009: € 0.2 million) for the audit of the consolidated financial statements and € 0.6 million (2009: € 0.1 million) for other certification services. In the previous year, remunerations for other services amounted to € 0.1 million.

The fees for other certification services include the remuneration for the audit of the financial statements of Austrian subsidiaries subject to statutory audits as well as the review of the interim consolidated financial statements.

(41) Notes on related party transactions

Related companies
The RHI Group maintained business relations with the associate MAGNIFIN Magnesiaprodukte GmbH & Co KG, St. Jakob, Austria, during 2010 and 2009.

In 2010 the Group provided services totalling € 3.1 million (2009: € 2.2 million) to this related company. The Group received services valued at € 2.1 million (2009: € 1.3 million) during the same period.

The receivables due from MAGNIFIN Magnesiaprodukte GmbH & Co totalled € 0.8 million and € 1.3 million as of 31 December 2010 and 2009, respectively. The liabilities due to this company amounted to € 1.0 million as of 31 December 2010, unchanged compared to the previous year.

Related persons
The income statement for 2010 includes expenses for the Management Board of € 3.6 million (2009: € 4.2 million):

in €	Thomas Fahnemann 1)	Henning E. Jensen	Giorgio Cappelli	Manfred Hödl	Rudolf Payer 2)
Fixed earnings	403,004	381,476	331,753	344,326	174,896
Variable earnings	0	330,405	330,405	330,405	101,220
Other	507,664	57,050	6,285	48,358	301,350
Total	**910,668**	**768,931**	**668,443**	**723,089**	**577,466**

1) retired from the Management Board as of 20 August 2010
2) retired from the Management Board as of 12 March 2010

Variable earnings are performance-related and are only paid in the following year. The item Other primarily includes termination payments, severance payments, pension payments, anniversary bonuses and provisions for holiday leave.

Liabilities and provisions of € 2.2 million were recognised for the Management Board (31 December 2009: € 3.2 million).

Salaries and other current benefits totalling € 3.4 million were paid to the members of the Management Board during the reporting year (2009: € 2.6 million). Payments made to former members of the Management Board and their surviving dependents totalled € 1.6 million (2009: € 2.6 million). This item includes € 1.1 million (2009: € 2.1 million) of payments made in connection with the termination of employment.

The members of the Supervisory Board received remunerations of € 0.3 million in 2010 (2009: € 0.3 million). These remunerations were recognised as an expense for the reporting year.

In the financial year 2010, a secured loan amounting to € 2.1 million granted to a member of the Management Board of RHI AG was fully repaid, including the agreed interest rate of 3.5%. As of the balance sheet date, there were no other 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 following the note (43).

Shareholders of RHI AG
Since 20 April 2007, the MS Private Foundation ("MSPS") has held more than 25% of the RHI shares. Apart from MSPS, FEWI Beteiligungsgesellschaft mbH, Germany, reported – in accordance with the Austrian Stock Exchange Act – a share exceeding 10% and Raiffeisen Bank International AG, Austria, a share exceeding 5% in the voting rights of RHI. The remaining shares are free float.

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

	2010	2009
Salaried employees	3,043	3,151
Waged workers	4,217	4,121
Average number of employees	**7,260**	**7,272**

(43) RHI Group Companies as of 31 December 2010

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

		Type of consolidation	Parent	Currency	Nominal capital in local currency	Share in %
1.	RHI AG, Vienna, Austria	F		EUR	289,376,213	
2.	Betriebs- und Baugesellschaft mbH, Wiesbaden, Germany	F	5.	EUR	894,761	100.00
3.	Didier Belgium N.V., Evergem, Belgium	F	61.	EUR	74,368	99.99
4.	Didier Vertriebsgesellschaft mbH, Wiesbaden, Germany	F	5.	EUR	178,952	100.00
5.	Didier-Werke AG, Wiesbaden, Germany	F	1.,25.	EUR	63,000,000	100.00
6.	Dolomite Franchi S.p.A., Brescia, Italy	F	25.	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	64.	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	64.	EUR	18,000	100.00
11.	FC Technik AG, Winterthur, Switzerland	F	25.	CHF	100,000	51.00
12.	Full Line Supply Africa (Pty) Limited, Sandton, South Africa	F	25.	ZAR	100	100.00
13.	GIX International Limited, Wakefield, Great Britain	F	71.	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, Copenhagen, Denmark	F	71.	EUR	20,000	100.00
16.	Liaoning RHI Jinding Magnesia Co., Ltd., Dashiqiao City, PR China	F	25.	CNY	300,000,000	83.33
17.	LLC "RHI Wostok", Moscow, Russia	F	1.,25.	RUB	3,500,000	100.00
18.	LLC "RHI Wostok Service", Moscow, Russia	F	1.,25.	RUB	22,000,000	100.00
19.	Lokalbahn Mixnitz-St. Erhard AG, Vienna, Austria	F	54.	EUR	119,397	100.00
20.	Magnesit Anonim Sirketi, Eskisehir, Turkey	F	9.,19.,25., 64.,71.	TRY	16,750,000	100.00
21.	Magnesitwerk Aken Vertriebsgesellschaft mbH i.L., Aken, Germany	F	5.	EUR	130,000	100.00
22.	MARVO Feuerungs- und Industriebau GmbH, Kerpen, Germany	F	5.	EUR	513,450	100.00
23.	MARVO Feuerungs- und Industriebau GmbH, Gerbstedt, Germany	F	22.	EUR	25,565	100.00
24.	Producción RHI México, S. de R.L. de C.V., Ramos Arizpe, Mexico	F	46.,71.	MXN	9,432,389	100.00
25.	Radex Vertriebsgesellschaft mbH, Leoben, Austria	F	68.	EUR	60,000,000	100.00
26.	REFEL S.p.A., San Vito al Tagliamento, Italy	F	5.	EUR	5,200,000	100.00
27.	Refractory Intellectual Property GmbH, Vienna, Austria	F	1.	EUR	17,500	100.00
28.	Refractory Intellectual Property GmbH & Co KG, Vienna, Austria	F	1.,27.	EUR	10,000	100.00
29.	RHI Argentina S.R.L., Buenos Aires, Argentina	F	15.,71.	ARS	10,000	100.00
30.	RHI Canada Inc., Burlington, Canada	F	71.	CAD	21,250,002	100.00
31.	RHI Chile S.A., Santiago, Chile	F	13.,71.	CLP	12,774,407,413	100.00
32.	RHI Clasil Limited, Hyderabad, India	F	71.	INR	184,000,000	53.72
33.	RHI Dinaris GmbH, Wiesbaden, Germany	F	61.	EUR	500,000	100.00
34.	RHI Finance A/S, Hellerup, Denmark	F	1.	EUR	70,000	100.00
35.	RHI GLAS GmbH, Wiesbaden, Germany	F	61.	EUR	500,000	100.00
36.	RHI India Private Limited, Navi Mumbai, India	F	71.	INR	835,000	60.00
37.	RHI Isithebe (Pty) Limited, Sandton, South Africa	F	25.	ZAR	1,500	100.00
38.	RHI Monofrax, Ltd., Wilmington, USA	F	10.	USD	3,558,751	100.00
39.	RHI-Refmex, S.A. de C.V., Ramos Arizpe, Mexico	F	46.,71.	MXN	67,210,290	100.00
40.	RHI Refractories Africa (Pty) Ltd., Sandton, South Africa	F	5.	ZAR	215,705	100.00
41.	RHI Refractories Andino C.A., Puerto Ordaz, Venezuela	F	71.	VEF	1,600,001	100.00
42.	RHI Refractories Asia Ltd., Hongkong, PR China	F	63.	HKD	1,000	100.00

		Type of consolidation	Parent	Currency	Nominal capital in local currency	Share in %
43.	RHI Refractories Asia Pacific Pte. Ltd., Singapore	F	1.	SGD	300,000	100.00
44.	RHI Refratários Brasil Ltda., Sao Paulo, Brazil	F	8.,71.	BRL	55,266,501	100.00
45.	RHI Refractories (Dalian) Co., Ltd., Dalian, PR China	F	25.	CNY	311,647,482	100.00
46.	RHI Refractories España, S.L., Lugones, Spain	F	5.,9.	EUR	6,930,000	100.00
47.	RHI Refractories France S.A., Breuillet, France	F	63.	EUR	703,800	100.00
48.	RHI Refractories Holding Company, Dover, USA	F	71.	USD	1	100.00
49.	RHI Refractories Ibérica, S.L., Madrid, Spain	F	63.	EUR	30,050	100.00
50.	RHI Refractories Italiana s.r.l., Brescia, Italy	F	63.	EUR	110,000	100.00
51.	RHI Refractories Liaoning Co., Ltd., Bayuquan, PR China	F	25.	CNY	180,000,000	60.00
52.	RHI Refractories Mercosul Ltda, Sao Paulo, Brazil	F	64.,71.	BRL	49,250	100.00
53.	RHI Refractories Nord AB, Stockholm, Sweden	F	63.	SEK	1,000,000	100.00
54.	RHI Refractories Raw Material GmbH, Vienna, Austria	F	1.,25.	EUR	35,000	100.00
55.	RHI Refractories Site Services GmbH, Wiesbaden, Germany	F	5.	EUR	1,025,000	100.00
56.	RHI Refractories (Site Services) Ltd., Newark, Great Britain	F	57.	GBP	1,350,000	100.00
57.	RHI Refractories Spaeter GmbH, Urmitz, Germany	F	5.,63.	EUR	256,157	100.00
58.	RHI Refractories UK Limited, Clydebank, Great Britain	F	5.	GBP	8,875,000	100.00
59.	RHI Rückversicherungs AG, Vaduz, Liechtenstein	F	25.	EUR	900,000	100.00
60.	RHI Trading (Dalian) Co., Ltd., Dalian, PR China	F	25.	CNY	39,865,230	100.00
61.	RHI Urmitz AG & Co KG, Mülheim-Kärlich, Germany	F	4.,5.	EUR	2,454,250	100.00
62.	RHI US Ltd., Wilmington, USA	F	10.	USD	1	100.00
63.	SAPREF AG für feuerfestes Material, Basel, Switzerland	F	71.	CHF	4,000,000	100.00
64.	Veitscher Vertriebsgesellschaft mbH, Vienna, Austria	F	1.	EUR	36,336	100.00
65.	Veitsch-Radex America Inc., Burlington, Canada	F	30.	CAD	1	100.00
66.	Veitsch-Radex America Inc., Mokena, USA	F	30.	USD	100	100.00
67.	Veitsch-Radex GmbH, Vienna, Austria	F	1.	EUR	35,000	100.00
68.	Veitsch-Radex GmbH & Co OG, Vienna, Austria (formerly Veitsch-Radex GmbH & Co)	F	1.,67.	EUR	106,000,000	100.00
69.	Veitsch-Radex Vertriebsgesellschaft mbH, Vienna, Austria	F	1.	EUR	36,336	100.00
70.	VERA FE, Dnipropetrovsk, Ukraine	F	25.	UAH	192,600	100.00
71.	VRD Americas B.V., Arnhem, Netherlands	F	1.,25.	EUR	33,750,450	100.00
72.	Zimmermann & Jansen GmbH, Düren, Germany	F	5.	EUR	3,835,000	100.00
73.	Dolomite Franchi GmbH i.L., Hattingen, Germany	N	6.	EUR	25,564	100.00
74.	Dr.-Ing. Petri & Co. Unterstützungs-Gesellschaft mbH, Duisburg, Germany	N	5.	DEM	50,000	100.00
75.	RHI Réfractaires Algérie E.U.R.L., Sidi Amar, Algeria	N	47.	DZD	100,000	100.00
76.	Dolomite di Montignoso S.p.A. i.L., Genoa, Italy	E	6.	EUR	743,600	28.56
77.	MAGNIFIN Magnesiaprodukte GmbH & Co KG, St. Jakob, Austria	E	64.,79.	EUR	9,447,468	50.00
78.	Società Dolomite Italiana SDI S.p.A., Gardone Val Trompia, Italy	E	6.	EUR	208,000	50.00
79.	MAGNIFIN Magnesiaprodukte GmbH, St. Jakob, Austria	I	64.	EUR	35,000	50.00
80.	LLC NSK Ogneupor Holding, Moscow, Russia	I	25.	RUB	10,000	49.00
81.	LLC NSK Ogneupor, Novokuznetsk, Russia	I	25.	RUB	10,000	49.00
82.	CJSC Podolsk Refractories, Moscow, Russia	I	25.	RUB	8,210,000	23.50
83.	Stopinc AG, Hünenberg, Switzerland	I	5.	CHF	1,000,000	50.00
84.	Treuhandgesellschaft Feuerfest mbH i.L., Bonn, Germany	I	5.,55.,61.	DEM	50,000	38.00

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

Members of the Management Board

Henning E. Jensen, Vienna, Chairman (Chairman since 4 February 2011, "Sprecher des Vorstandes" from 21 August 2010 until 3 February 2011, member since 18 January 2010)

Mark J. Eckhout, Vienna (since 14 February 2011)

Giorgio Cappelli, Vienna

Manfred Hödl, Vienna

Thomas Fahnemann, Vienna (Chairman until 20 August 2010) and Rudolf Payer, Vienna (until 12 March 2010) were also members of the Management Board.

Members of the Supervisory Board

Herbert Cordt, Vienna, Chairman since 30 April 2010 (Deputy Chairman until 30 April 2010)

Michael Gröller, Vienna, Deputy Chairman since 30 April 2010 (Chairman until 30 April 2010)

Helmut Draxler, Vienna, Deputy Chairman

Hubert Gorbach, Frastanz

Gerd Peskes, Düsseldorf, Germany

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

David A. Schlaff, New York, USA (since 30 April 2010)

Employee representatives:

Martin Kowatsch, Radenthein

Leopold Miedl, Vienna

Roland Rabensteiner, Veitsch

Franz Reiter, St. Jakob in Haus

Ulrich Glaunach, Vienna, was also a member of the Supervisory Board during the reporting year (until 30 April 2010).

Vienna, 7 March 2011

Management Board

Henning E. Jensen
CEO

Mark J. Eckhout
CFO

Giorgio Cappelli
COO Stahl

Manfred Hödl
COO Industrial

Auditor's Report

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of RHI AG, Vienna, for the fiscal year from 1 January 2010 to 31 December 2010. These consolidated financial statements comprise the consolidated statement of financial position as of 31 December 2010, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the fiscal year ended 31 December 2010, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements and for the Accounting System
The Company's management is responsible for the group accounting system and 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 consolidated 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 and Description of Type and Scope of the Statutory Audit
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, as well as in accordance with International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with professional guidelines and that we 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 Group'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 Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as of 31 December 2010 and of its financial performance and its cash flows for the fiscal year from 1 January 2010 to 31 December 2010 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Comments on the Management Report for the Group

Pursuant to statutory provisions, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the management report for the Group is consistent with the consolidated financial statements and whether the disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

In our opinion, the management report for the Group is consistent with the consolidated financial statements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Vienna, 7 March 2011

Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Nikolaus SCHAFFER m.p.
Austrian Certified Public Accountant

Dr. Gottfried SPITZER m.p.
Austrian Certified Public Accountant

Statement of all Legal Representatives

Statement of all Legal Representatives

We confirm to the best of our knowledge that the consolidated financial statements, which were prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and that the Group management report gives a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties the Group faces.

The results of the financial year ending on 31 December 2010 do not necessarily permit conclusions on the future development of results.

Vienna, 7 March 2011

Management Board

Henning E. Jensen
CEO

Mark J. Eckhout
CFO

Giorgio Cappelli
COO Stahl

Manfred Hödl
COO Industrial