Management Report
RHI Group 2011

Management Report

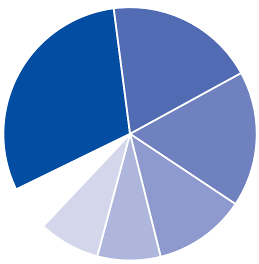
RHI Group

in € million	2011	2010	Change
Revenues	**1,758.6**	**1,522.9**	**15.5%**
Steel Division	1,106.8	977.3	13.3%
Industrial Division	613.9	517.8	18.6%
Raw Materials Division			
External revenues	37.9	27.8	36.3%
Intragroup revenues	170.4	137.4	24.0%
Operating result[1)]	**148.6**	**138.8**	**7.1%**
Steel Division	70.1	62.7	11.8%
Industrial Division	68.3	74.3	(8.1)%
Raw Materials Division	10.2	1.8	466.7%
Operating result margin	**8.4%**	**9.1%**	**(7.7)%**
Steel Division	6.3%	6.4%	(1.6)%
Industrial Division	11.1%	14.3%	(22.4)%
Raw Materials Division	4.9%	1.1%	345.5%
EBIT	**150.9**	**126.0**	**19.8%**
Steel Division	71.5	61.7	15.9%
Industrial Division	71.8	60.6	18.5%
Raw Materials Division	7.6	3.7	105.4%
EBIT margin	**8.6%**	**8.3%**	**3.6%**
Steel Division	6.5%	6.3%	3.2%
Industrial Division	11.7%	11.7%	0.0%
Raw Materials Division	3.6%	2.2%	63.6%

1) before reversal of impairment losses/impairment losses and restructuring costs

Economic Development 2011

Revenues by region



30.2% Western Europe
19.1% North America (incl. Mexico)
17.3% Asia/Pacific
11.8% Eastern Europe
8.0% Middle East
7.8% South America
5.8% Africa

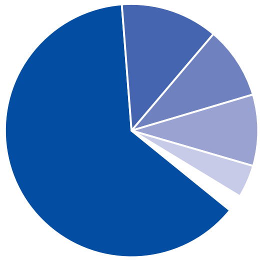
The first half of 2011 was dominated by the political changes in the Middle East and North Africa as well as the natural disaster in Japan and the subsequent radiation from the Fukushima nuclear power plant. High volatilities in the oil price and the financial markets were the result. To this day, Japan has been unable to overcome the economic consequences, and Japanese companies still produce at reduced capacity. Europe showed an uneven picture with a surprisingly good economic development in core Europe and persisting stagnation or recession in the peripheral euro-zone countries. The USA also presented weak economic data. At the same time, demand from the emerging countries, which is so important to the industrialized nations, dropped because the national banks of these countries were fighting inflation.

From the summer of 2011 onwards, the topic of the sovereign debt crisis with an increase in the debt limit of the USA and the exploding debt of some Southern European countries dominated the financial markets. Soaring yields for new issues, minimum capital requirements for European banks as well as massive austerity measures on the part of governments led to a cooling of the economy, which also had an impact on core Europe. While the tension in Europe hardly subsided at the end of the year, the investment dynamics of American industry saved the USA from falling back into recession.

Earnings and Financial Position

The sales volume of the RHI Group was increased from 1,786,745 metric tons in 2010 by 9% to 1,948,309 metric tons in the year 2011. The RHI Group's revenues rose by 15.5% to a record € 1,758.6 million in 2011 (previous year: € 1,522.9 million) and were characterized by strong world steel production, especially in the first half of the year, and a good investment climate in the Industrial segment. In addition to the Steel Division, the business units nonferrous metals and environment, energy, chemicals generated an all-time high in revenues. Revenues from long-term manufacturing contracts rose from € 49.3 million in 2010 to € 57.6 million in the year 2011, which was primarily attributable to a ferrochrome project in Kazakhstan. RHI closed the financial year 2011 with an operating result before reversals of impairment losses and restructuring expenses of € 148.6 million (previous year: € 138.8 million). The balance of expenses and income from reversals of impairment losses and restructuring amounted to € 2.3 million and is related to the close-down of two sites in EMEA (Europe, Middle East, Africa) and the sale of a plant in Canada. The Group's EBIT amounted to € 150.9 million in the past financial year, up some 20% on the prior-year EBIT of € 126.0 million. The EBIT margin was increased from 8.3% in the year 2010 to 8.6% in 2011. The Group's EBITDA rose by 18.7%, from € 172.0 million in the year 2010 to € 204.1 million in 2011, enabling an increase in the EBITDA margin from 11.3% to 11.6%.

Revenues by industry



Profitability indicators

	2011	2010	Change
Gross profit to revenues	20.7%	22.0%	(5.9)%
Administrative costs to revenues	6.3%	6.6%	(4.5)%
EBITDA margin	11.6%	11.3%	2.7%
EBIT margin	8.6%	8.3%	3.6%

Cash flow

Net cash flow from operating activities increased from € (12.3) million in the year 2010 by € 136.7 million to € 124.4 million in the reporting period. This increase is primarily attributable to the more consistent working capital management in the year 2011. As a result of the acquisitions in the raw materials sector in the third quarter, the capacity expansion in Turkey and in China as well as the construction of a new plant in Brazil, net cash flow from investing activities nearly doubled to € (105.5) million, with the sale of property, plant and equipment of roughly € 10.8 million having a positive effect. € 7.2 million were related to the sale of a property in Turkey and of the plant in Canada. Free cash flow was increased from € (66.6) million in the year 2010 to € 18.9 million. Cash flow from financing activities results above all from new long-term borrowings related to the growth and raw material projects.

RHI Group: Cashflow

in € million	2011	2010	Change
Net cash flow from operating activities	124.4	(12.3)	1,111.4%
Net cash flow from investing activities	(105.5)	(54.3)	(94.3)%
Net cash flow from financing activities	67.3	(18.3)	467.8%
Cash flow from continuing operations	**86.2**	**(84.9)**	**201.5%**
Cash flow from discontinued operations	**(0.2)**	**0.0**	**(100.0)%**

Investments

In the past financial year, the RHI Group spent € 123.1 million on investments, with the acquisition of subsidiaries in Russia, Norway and Ireland accounting for 29.7% of this total, the extension of production capacity for 26.7%, maintenance, repair and rationalization measures for 26.6%, investments due to legal requirements and health & safety for 7.3%, IT investments to 4.0% and intangible assets as well as prepayments to 5.7%.

The regional distribution of investments is shown in the table below:

in € million	2011	2010	Change
EMEA	62.2	26.4	135.6%
Asia	10.3	18.0	(42.8)%
NAFTA	8.9	5.4	64.8%
South America	5.2	7.6	(31.6)%
Investments	36.5	6.1	498.4%
	123.1	**63.5**	**93.9%**

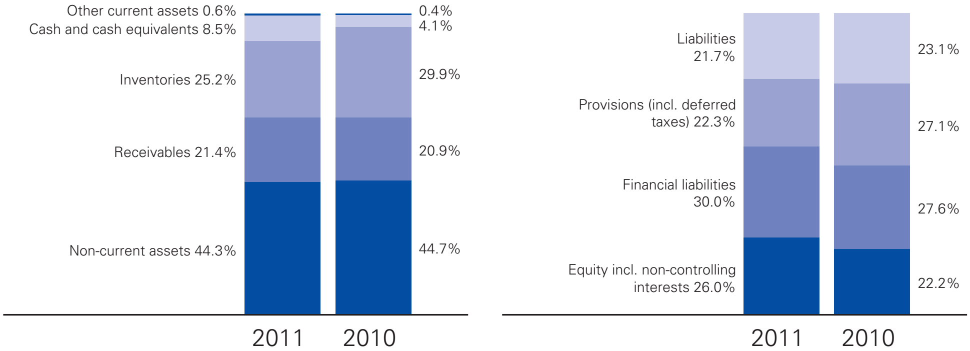
Profit Development and Balance Sheet Structure

In 2011, profit before tax from continuing operations increased by approximately 20% to € 125.5 million (previous year: € 104.6 million). The tax rate in the reporting period amounted to 3.7%, as deferred taxes for loss carryforwards amounting to € 17.7 million were capitalized. The RHI Group's profit thus amounted to € 121.5 million; in the financial year 2010, the profit was € 105.7 million.

Based on the average number of shares outstanding of RHI AG, earnings per share amounted to € 3.05 in 2011, after € 2.66 in the year 2010.

Balance sheet structure

ASSETS **EQUITY AND LIABILITIES**

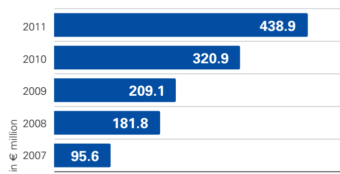


The balance sheet structure of RHI is characterized by a relatively high capitalization ratio and a long-term financing component, which is typical of the industry. The balance sheet total was up 16.6% on the previous year and amounted to € 1,689.9 million. The increase is primarily attributable to the acquisition-related increase in property, plant and equipment and the higher trade receivables due to an increase in revenues. Despite the growth in revenues, inventories were slightly reduced. However, the working capital ratio, i.e. working capital in relation to revenues, was lowered slightly from 29.1% in 2010 to 25.9% in the year 2011.

The reduction in personnel provisions from € 308.5 million at December 31, 2010 to € 289.9 million was attributable to actuarial gains, which resulted from a slightly increased interest rate.

The ROCE (Return on Capital Employed), at 14.2%, exactly matched the prior-year value. It shows the NOPAT (net operating profit after tax) in relation to the capital invested (property, plant and equipment and intangible assets including goodwill plus the average net current assets, which consist of inventories, trade receivables and trade payables).

Equity development



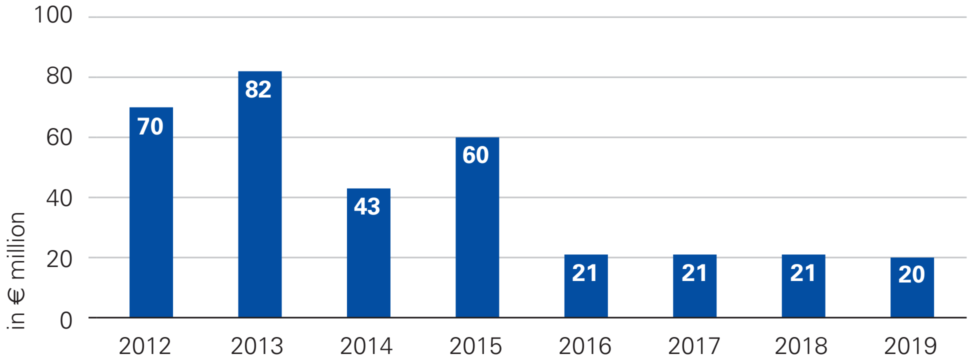
RHI improved its equity further in 2011. At December 31, 2011 it amounted to € 438.9 million (previous year: € 320.9 million) and corresponds to an equity ratio of 26.0% (previous year: 22.2%).

The consolidated balance sheet as of December 31, 2011 shows cash and cash equivalents of € 144.5 million (previous year: € 58.8 million). Financial liabilities amounted to € 506.0 million on the balance sheet date (previous year: € 399.8 million). After the deduction of cash and cash equivalents, net financial liabilities amounted to € 361.5 million (previous year: € 341.0 million). Net financial liabilities correspond to roughly 1.8 times the EBITDA of the year 2011. This key figure also corresponds to the covenants in the most important loans of the RHI Group and may not exceed a value of 3.5 or, in more recent agreements, of 3.8. Compliance with these covenants is examined on a quarterly basis.

The gearing ratio improved from 200.6% at December 31, 2010 to 147.3% at December 31, 2011; not taking into account non-current personnel provisions, this is an improvement from 106.3% to 82.4%.

13.2% of the liabilities to banks have a term of more than 5 years, 41.7% a term of two to five years, and the remaining part of 45.1% is due in less than one year. As of December 31, 2011, 53.0% of the liabilities to banks carried an average variable interest rate of 2.6%; 47.0% of the liabilities to banks carried an average fixed interest rate of 3.3%.

The repayment structure of the most important loans (incl. subsidized financing) as of December 31, 2011 is shown below:

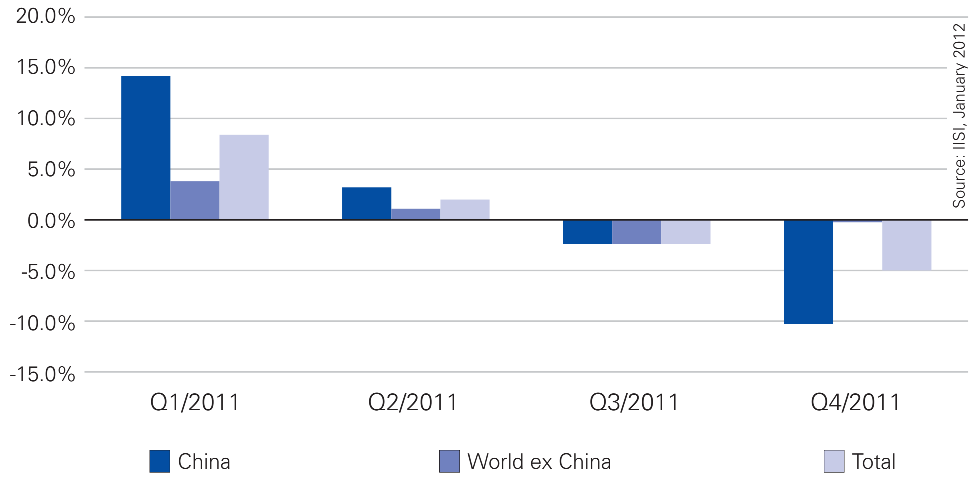


Due to the high investment budget in 2012, RHI increased its financing lines with banks substantially in 2011. As of December 31, 2011, the RHI Group had unused credit facilities exceeding € 176.6 million with Austrian and foreign banks and a line of credit from the sale of receivables of € 85.0 million, of which 93.1% was used.

Steel Division

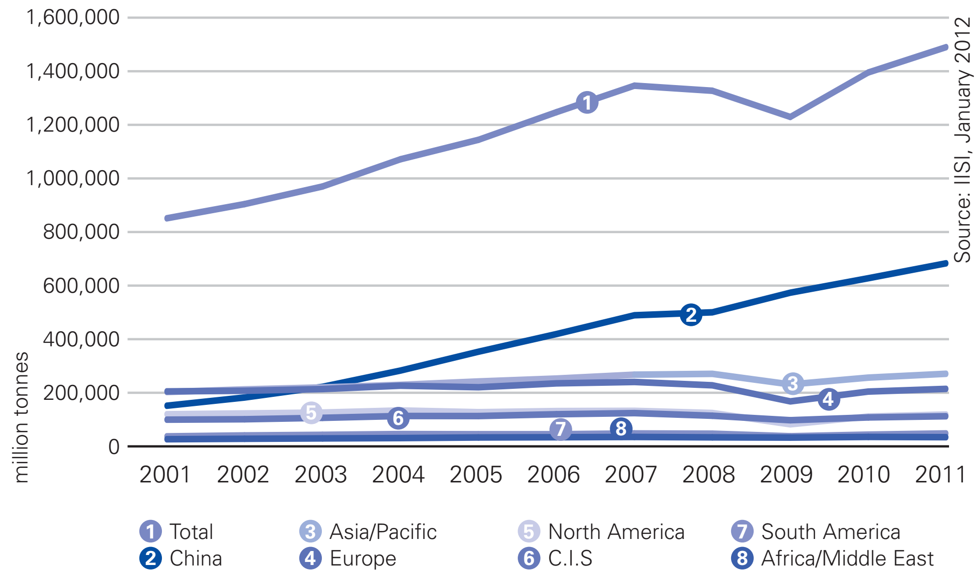
After a strong recovery of world steel production in the year 2010, the dynamics changed every quarter in the year 2011. While China was the driver of a soaring steel output in the first half of the year, it matched the level of the rest of the world in the third quarter with a decline of 2.4% and recorded a decrease by more than 10% in the fourth quarter.

Growth rates in steel production



World steel output

Overall, the world steel output increased to roughly 1.5 billion metric tons in 2011, up approx. 7% on the reference year 2010. Europe without the EU 27 and South America recorded growth rates of more than 10%, China of just under 9% and North America and Asia not including China of more than 5%. In the EU 27, steel output increased by less than 3%, while in Africa it declined by 14% due to the political unrest in the north.



Sales volume in the Steel Division showed an increase by 7% in accordance with world steel production. Revenues in the Steel Division, however, rose 13.3% year-on-year, reflecting the price adjustments necessary due to the soaring raw material prices. Capacity utilization of all plants in this division exceeded 90% throughout the entire year. The operating result, at € 70.1 million, significantly exceeded the 2010 figure of € 62.7 million; the operating result margin of 6.3% corresponds to the prior-year level of 6.4%. The increase in the EBIT margin by 0.2 percentage points is attributable to income related to the restructuring of a plant in France.

Segment indicators

in € million	2011	2010	Change
Revenues	1,106.8	977.3	13.3%
Operating result	70.1	62.7	11.8%
Operating result margin	6.3%	6.4%	(1.6)%
EBIT	71.5	61.7	15.9%
EBIT margin	6.5%	6.3%	3.2%

EMEA

The year 2011 was characterized by strongly differing trends in the first and second half of the year. While the first half of the year saw robust demand for steel and consequently for refractory products, the second half fell short of expectations.

Based on excellent service, outstanding product performance and a solid demand situation at the beginning of the year, RHI managed to implement the necessary price adjustments, thus passing on the dramatically increased raw material costs (especially for fused magnesia and graphite) to the customers. The two raw material projects carried out in Ireland and Norway in 2011 will lead to a further relaxation of the pressure on margins as they will drastically reduce dependence on external purchases of large crystal sinter and fused magnesia in the future.

Multiple downward revisions of growth forecasts made in the second half of the year in combination with the worsening sovereign debt crisis in the industrialized nations (especially in Europe) and the uncertainty regarding further economic developments caused a decrease in the demand for steel and declining steel prices. As a result, inventories, which were not high to begin with, were reduced further, which consequently led to temporary shut-downs of individual units or even complete production lines/plants.

Following the political upheavals in the Middle East in the course of the Jasmine Revolution, it took a few months until production was resumed. In some countries, production will run at normal capacity utilization at the earliest in the second half of 2012. In addition, new projects will be delayed.

North America

As opposed to Europe, the steel market in North America showed a highly robust development in the second half of the year. Even the downgrade of the USA's rating and the subsequent expected loss of trust in the sustainability of the upswing since mid-2009 were not reflected in a significant drop in demand and production.

RHI is currently evaluating possible production sites in the USA in order to be represented with its own production facility in this important market. Apart from savings on the customs duties and logistics side, this should enable a reduction of working capital and offer customers even better delivery service.

South America

Due to our stronger market presence, revenues in South America were increased significantly. Brazil in particular, where an important global customer launched its production capacities in 2011, contributed to this positive development.

In September, the ground-breaking ceremony for the first plant in Brazil represented an important step in the growth strategy of RHI, which should lend further stimulus to the rapidly growing business in South America. The future production site in the industrial district of Queimados will serve as a hub for the entire South American business due to its strategically favorable location. Important customers as well as a developed infrastructure (industrial port, highways, etc.) are located in the immediate vicinity. The investment amounts to a total of approx. € 85 million. Roughly 200 new jobs and a total of 400 indirect jobs will be created with this plant. Production is scheduled to start in the third quarter of 2013. Similar to the situation in the USA, RHI will be able to reduce import duties and transport costs with a local production site in Brazil.

Asia/Pacific

The rapidly growing markets in Southeast Asia have a great need to catch up, which also offers enormous potential for the refractories industry. Because of the closed Japanese market RHI was only marginally affected by the decline in production following the tsunami disaster, so revenues in the region Asia/Pacific were raised by more than 10%. This positive development is primarily attributable to India and Vietnam. India is one of the most rapidly growing markets for refractory products and an integral part of RHI's growth strategy.

China

China did not escape the sovereign debt crisis. Particularly in the second half of the year, a slow-down of the rapid growth (especially in the construction business) was to be observed due to a tighter monetary policy. Nevertheless, China recorded another record year in steel production in 2011. The year-on-year increase is larger than the entire steel production in Germany. However, the refractories market in China is highly competitive in terms of both margins and incoming payments due to more than 3,000 competitors.

In the future, RHI will increasingly develop products for the local market with a research team in China and continue to expand the flow control business by extending its marketing and research activities.

WE MAKE THE FUTURE OF STEEL POSSIBLE:

WITH THE HIGHEST METALLURGICAL EXPERTISE, FROM THE RAW MATERIAL TO THE FINISHED PRODUCT

Katrin Steinbacher
Marketing Assistant SGL – Marketing Linings Europe, RHI AG Vienna

"The challenge for us, being the leading refractories producer for the steel industry, consists of developing a tailor-made refractory solution for each production process of our customers and manufacturing the optimal refractory products from suitable raw materials in order to make an innovative contribution to the finished product of our customer. The selection of the adequate formula for each requirement is decisive. So is our quality chain, from raw material mining to the end product. Our own raw material resources and our metallurgical expertise provide the necessary quality and competence basis, so that our customers can produce highest grade steel."

Industrial Division

With revenues totaling € 613.9 million, the Industrial Division recorded its highest revenues in company history. The business units nonferrous metals and environment, energy, chemicals reported an all-time high in revenues. As prices for some raw materials increased significantly, the operating result of € 68.3 million was below the prior-year figure; the EBIT margin of 11.7% remained stable due to the proceeds from the sale of a plant in Canada.

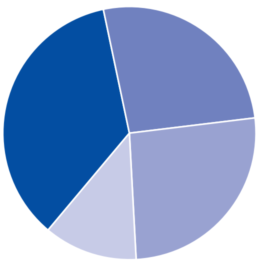
Segment indicators

in € million	2011	2010	Change
Revenues	613.9	517.8	18.6%
Operating result	68.3	74.3	(8.1)%
Operating result margin	11.1%	14.3%	(22.4)%
EBIT	71.8	60.6	18.5%
EBIT margin	11.7%	11.7%	0.0%

Cement/Lime

In comparison with the previous year, the business unit cement increased its sales volume and revenues and nearly reached the record level of the year 2008 again. A particularly good business development was recorded in Brazil, China as well as in Russia and other CIS states. In the Brazilian market both the high product quality and the service offered by RHI led to a significant increase in the market share in third-party business. Although only few new cement plants are built in China now, the demand for high-quality refractory products continues unabated. For this reason, the third local tunnel kiln, which had been commissioned in October 2010, was fully utilized right from the beginning. The ongoing positive prospects for demand in China and Asia in general make it necessary to install a fourth tunnel kiln at the Dalian plant. This new unit is expected to start operations in August 2012.

Revenues by industry



35.6% Cement/Lime
26.4% Nonferrous metals
26.0% Glass
12.0% Environment, Energy, Chemicals

In Eastern Europe and the CIS states it was evident that the crisis in the construction sector has come to an end, which was also reflected in the positive level of new orders in the fourth quarter.

As economic data show, no revival of the construction industry is in sight in the USA and the EU countries, which naturally has a negative effect on cement consumption. Cement lines were shut down in both regions. In addition, many cement groups initiated cost-cutting programs in order to offset the decline in sales and growing costs as far as possible. In order to avoid losing market share in this environment, RHI launched a service initiative and began to introduce lower-cost refractory qualities.

Due to a low order backlog from the year 2010 and stagnating project activities, the lime business was faced with a difficult situation in the first quarter of 2011. Regions like China, India and South America fell clearly short of expectations. Moreover, contracts were lost in the core market Europe because of the low price level caused by competition.

However, the cooperation with the two globally operating lime producers Lhoist and Carmeuse developed very positively. The two companies were looking for a substantially closer cooperation with RHI and drew up framework contracts for technical support and delivery conditions for significantly higher order volumes than in the past. Here, RHI's top position was recaptured and defended on a sustained basis.

The lime industry in Central America continued to develop positively and RHI now supplies nearly 100% of this market.

Towards the end of the third quarter the situation in the project market began to relax, and a significant increase in incoming orders was recorded in the fourth quarter.

Glass

The worldwide glass market developed positively in 2011. Primary production was increased in all important segments and many regions. As a result, revenues of the RHI glass business unit also grew significantly.

Western Europe and the Middle East recorded a particularly positive development. The container glass market recovered well from the crisis. In addition, glass bottles are still considered a premium segment in the packaging sector in both regions, which is an important indicator for future business.

The flat glass segment also developed positively. Major producers are planning and building a series of new glass tanks in all regions of the world. Only in China, the market slowed down in the second half of 2011. A slow-down in economic growth and excess supply of flat glass are considered the main causes for this development. Consequently, fewer tanks were built and maintained, which may have an impact until at least the first half of 2012. In general, however, the outlook is positive, especially because of the high demand for flat glass for solar applications.

In the CIS states, the glass market showed a negative picture, as new projects and in some cases repair projects could not be financed. Yet, the targets set when the refractories producer Podolsk was taken over were met.

In the USA and South America, expectations were not entirely fulfilled, which was primarily attributable to the difficult competitive situation for fused cast AZS materials. In this area, the raw material zirconium sand is applied, which became extremely expensive in the year 2011. Due to limited availability and the incalculable demand in China, high prices must be expected in the future as well. RHI introduced measures designed to reduce zirconium requirements through new products and adapted lining concepts.

The special glass segment, which includes TFT/LCD glass, a segment important to RHI, was stable in 2011. In the fiber glass sector RHI even gained market share.

In general, the issue of saving energy is increasingly in the focus of glass manufacturers and engineering companies. In this context, high-quality products by RHI make an essential contribution, especially when glass customers are not prepared to accept a reduction of the service life of tanks or in product quality.

Nonferrous metals

In 2011, the nonferrous metals segment surpassed the record levels of the pre-crisis years in terms of both sales and revenues. The absolute and the relative contribution to earnings significantly exceeded the level of the previous year, which means that profitability in the nonferrous metals business unit increased further with revenues rising at the same time.

The economic environment that enabled this positive development was characterized by substantial price increases for all nonferrous metals especially in the first half of the year, with copper reaching a historic record level in the first quarter of 2011. Nickel, lead, zinc and aluminum also recorded price increases, some of which were significant, but did not reach the level of the boom years 2007/2008.

2011 was a strong year in the nonferrous metals sector, especially in China and Eastern Europe. In China, the copper projects carried out in the past years had a positive effect on third-party business because of beginning repairs; moreover, important orders were also booked for new projects. In Kazakhstan the first partial delivery for a multi-million project in the ferrochrome segment was delivered, which made a considerable contribution to increasing the profitability of this segment. In Brazil, market share was gained in the copper industry and the two major projects in the ferronickel industry were completed. In 2012 and the following years, follow-up orders can be expected for the operation of these plants. Despite the difficult economic climate in Europe, business was also maintained stable in this region, though with an extremely uncertain outlook on the business development in 2012 due to the rather negative forecasts. Despite very strong low-cost competition from the Far East, RHI retained a stable position in the copper country Chile, which was not least due to the production site in Dalian, whose expansion has become essential for business in South America.

After the shut-down of the Bécancour plant in Canada, the transfer of the corresponding products to European production facilities was successfully completed without any considerable loss of market share.

Towards the end of the year, several larger orders from the copper industry were recorded and the complete lining for a lead recycling plant was performed in the USA. This was possible due to the excellent reputation of RHI in comparable plants in this business segment.

RHI materials were largely used for nearly all major repairs of key aggregates in the copper industry and the important ferronickel units again in 2011. An expanded overall key-account concept with the ability to supply high quality worldwide, in combination with the proven RHI engineering and expertise in process technology, will continue to secure a decisive leading edge in the market.

The aluminum segment also recorded an increase in sales volume and revenues, with special attention attached to projects that are in many cases handled in cooperation with the RHI-owned installation company MARVO.

RHI expanded its position as a recognized technology leader among major companies and kiln manufacturers and scored with the reliable high quality of the RHI refractory products as well as the global presence of the production sites and sales offices.

Environment, Energy, Chemicals

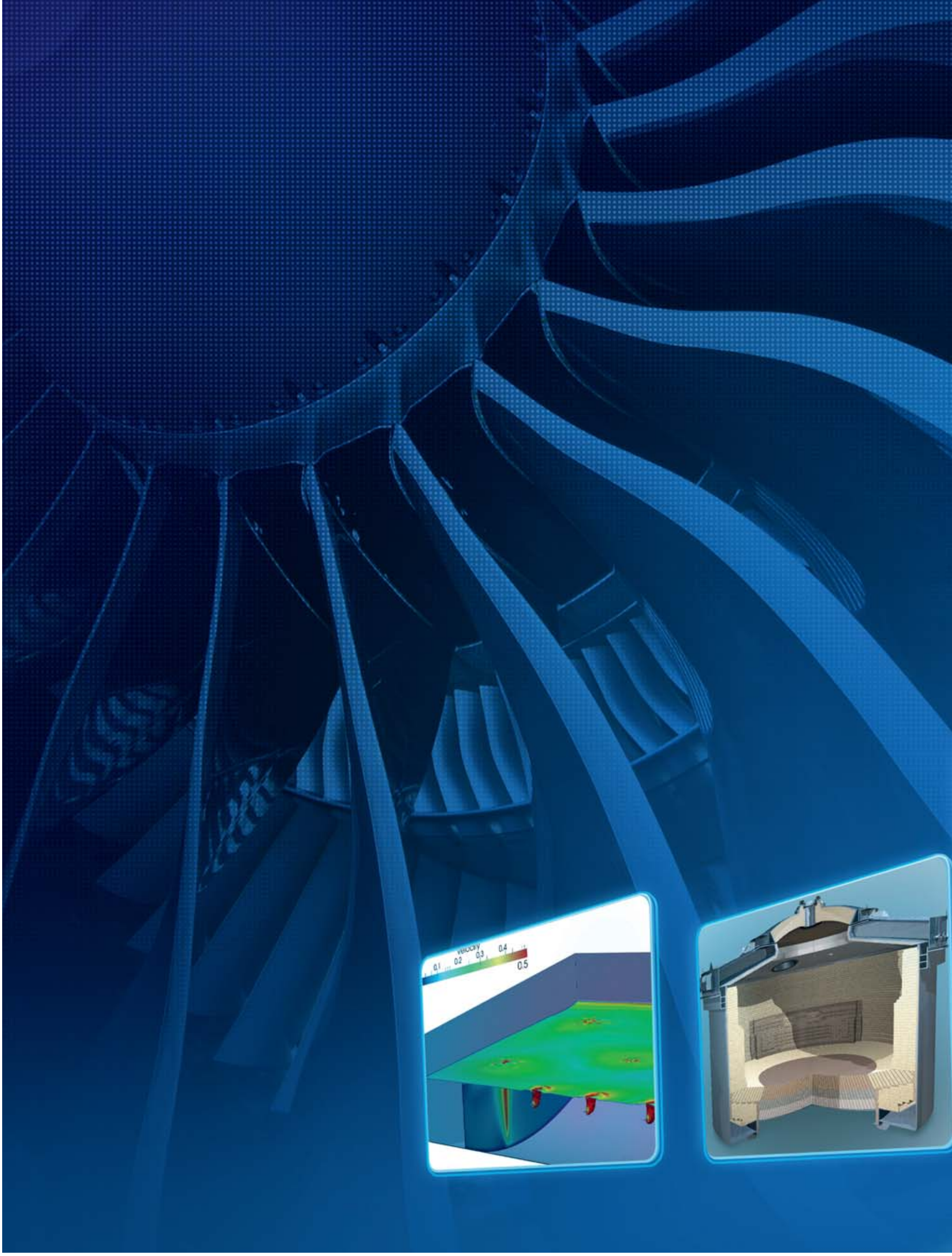
After first signs had already indicated in the previous year that projects which had been stopped or delayed during the crisis in 2009 would be continued and additionally further projects would be implemented, RHI benefitted above average from this recovery of the market.

Both revenues and earnings of this business unit reached a new all-time high in the past financial year.

From a regional perspective, North America saw a strong development driven by the ongoing good situation in the oil and gas processing segment. But in addition, business also improved in nearly all other regions and market share was gained. What's particularly positive is that after years of consolidation business shows a favorable development again.

The basis created for the service business in the previous years was expanded further in the past financial year and is starting to turn into a cornerstone of the business. This makes it possible to develop market segments that are service-intensive and used to be difficult to access, and to score among customers with customized package solutions which consist of engineering, material, installation and maintenance. Newly developed products and concepts for the key industries for oil, gas, coal and in the environmental segment strengthen the earnings power and help to also gain ground in new industry segments.

RHI



WE MAKE THE FUTURE OF NONFERROUS PRODUCTS POSSIBLE:

THROUGH PROFOUND PROCESS KNOW-HOW FROM THE CONCEPT TO THE IMPLEMENTATION

Oliver Zach
Head of Engineering IND – OEM Projects / Design / CAD NFM, RHI AG Vienna

"Our product portfolio for the nonferrous metals industry covers a wide variety of product groups, ranging from basic and non-basic bricks and mixes to prefabricated components, slide gate plates, gas purging systems, special machinery and repair systems to the installation of refractory products in various different units. This broad spectrum of products and our process expertise enable us to deliver complete projects as customized system solutions from one source: from the development of refractory quality concepts in the nonferrous metals segment to their implementation on site, worldwide."

Raw Materials Division

Revenues of the Raw Materials Division totaled € 208.3 million in 2011 (previous year: € 165.2 million), of which internal deliveries to the RHI Group accounted for € 170.4 million (previous year: € 137.4 million) and external customers for € 37.9 million (previous year: € 27.8 million). The division's operating result amounted to € 10.2 million, and EBIT to € 7.6 million (previous year: € 3.7 million).

Segment indicators

in € million	2011	2010	Change
Revenues	208.3	165.2	26.1%
External revenues	37.9	27.8	36.3%
Internal revenues	170.4	137.4	24.0%
Operating result	10.2	1.8	466.7%
Operating result margin	4.9%	1.1%	345.5%
EBIT	7.6	3.7	105.4%
EBIT margin	3.6%	2.2%	63.6%

In the reporting period, three essential steps were taken to increase the backwards integration of the RHI Group:

In May, a contract to acquire SMA Magnesia AS (SMA), Norway, was signed. The closing of the transaction took place in late September 2011. SMA produces seawater-based magnesium hydroxide, which can be converted to fused magnesia. Through the expansion of the existing product line and especially through an investment of € 70 million in a new fusing plant, which will start production in Q2/2012, a capacity of 80,000 metric tons of high-grade fused magnesia will be reached. This important step in line with RHI's raw material strategy raises the self-sufficiency level with magnesia raw materials by some 20 percentage points.

In September, Premier Periclase Ltd. (PPL), Ireland, one of the global suppliers of seawater-based large crystal sinter, was acquired. PPL produces roughly 70,000 metric tons of sinter magnesia in the north of Dublin with more than 100 employees. RHI will also invest in this location and optimize the capacity.

In addition, a capacity extension was started at the Turkish site in Eskisehir in 2011, which is scheduled to be completed in the summer of 2012.

Based on these three initiatives, the RHI Group will reach a backwards integration of approx. 80% for magnesia-based raw materials by the end of the year 2012.

At the Breitenau plant in Austria, energy efficiency has been enhanced on a sustained basis through the installation of a new filter system. Particulates emissions, which occur during the processing of magnesite, will be reduced by 99% and the gas consumption of the rotary kilns has been cut significantly.

On the purchasing side, the raw material prices for graphite and zirconium sand continued their upward trend in the year 2011. RHI is reviewing alternative sources and the use of substitute materials, with a special focus placed on the topic of recycling.

Outlook

Despite the uncertain economic environment, RHI expects revenues in 2012 to match the level of the year 2011. The persisting good investment climate should compensate the temporary cool-off on the steel side. Due to a higher level of backwards integration for magnesia-based raw materials and an improved cost structure, the Group's EBIT margin in 2012 should exceed the level of the year 2011. The RHI Group will invest roughly € 170 million in 2012. The main part of this total is designated for the expansion of raw material supply in Norway and Turkey, as well as for the creation and expansion of capacity in Brazil and China.

Steel

The forecasts for steel production and steel consumption in the year 2012 reflect the uncertainty the markets still show regarding a solution of the European sovereign debt crisis. Consequently, estimates for changes in steel production in Europe range from -5% to +3% in comparison with 2011.

Due to the European sovereign debt crisis, experts also expect growth in the emerging markets to slow down. This should have an impact above all on China, as Europe is currently in the process of taking the place of the USA as the main customer for Chinese products.

In this environment, RHI expects steel output to stagnate or increase slightly, with individual regions recording a year-on-year decline in steel production in the first half of the year. The second half should, however, develop more positively overall. Revenues are expected to roughly correspond to the level of the year 2011. As raw material prices (e.g. graphite) increased, further price adjustments will be necessary. The excellent service and the outstanding product performance should, however, guarantee that market share can at least be maintained stable for all aggregates.

Industrial

Despite the good level of incoming orders in the cement segment in the fourth quarter it is difficult to foresee to what extent the unfavorable economic forecasts will affect the development of the western markets beyond the first quarter. In South America the project business is still going well. In the Middle East it remains to be seen how the political situation will develop.

Following a relatively weak year 2011, the sales segment lime starts the year 2012 with a high level of incoming orders at the beginning of the year.

The outlook of the business unit glass is largely positive for the year 2012. Above all in Europe, a further recovery of the repair business is recognizable, a trend that is also increasingly visible in the USA. After business slowed down in China, there are first indications of a positive development. The market for fused-cast products and the raw material situation for zirconium will continue to be difficult in 2012 and the following years.

In early 2012, metal prices continued to recover and stabilized at a level that is acceptable for investments and expansion. This is already positively reflected in the incoming orders in the nonferrous metals segment, which has already received project contract up to and including the third quarter. Despite the currently tense economic situation in the euro area, no significant downturn is recognizable in the third-party business in the nonferrous metals sector. In North and South America, however, the competitive pressure is rising due to Chinese low-cost suppliers. Due to the major contracts for Kazakhstan, which were already booked last year, the stronger quarterly revenues will shift somewhat unsymmetrically to the third and fourth quarters of 2012, which may cause a weaker first and second quarter. For the entire year, however, revenues are expected to reach the high level of 2011 or possibly even exceed this level. The outlook for the nonferrous metals sector is generally positive, especially regarding new technologies on the process technology side and the cooperation with renowned kiln manufacturers in the industry. This will enable RHI to secure clear market leadership in the future. With the merger of Glencore and Xstrata, the biggest consolidation step in the customer industry relevant to the nonferrous metals segment took place. Possible effects on RHI's business cannot be estimated at this stage.

In the environment, energy, chemicals segment, new construction projects slowed down again at the end of the year 2011. Apparently it is becoming increasingly difficult to finance these capital-intensive investments. However, a high oil price of more than USD 100/bl as well as rising energy prices should be a basis for further investments in the environment, energy, chemicals sector in the medium to long term.

Raw materials

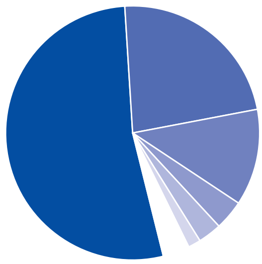
In the Raw Materials Division, capacity utilization is expected to be good again in the year 2012. The focus of this segment is placed on completing the investments in Turkey and Norway in order to achieve a backward integration of roughly 80% for magnesia-based raw materials by the end of the year 2012.

Employees

In the past financial year 2011 the number of employees increased from 7,266 to 7,925. This increase by approx. 9% is primarily attributable to the acquisitions in Ireland, Norway and Russia.

52.9% of the employees working for fully consolidated companies of the RHI Group in the year 2011 were employed in Western Europe, 23.0% in Asia/Pacific, 12.3% in North America, 3.8% in Africa, 3.4% in Eastern Europe, 3.0% in the Middle East and 1.6% in South America. 1,828 people were employed in Austria at the end of the year 2011.

Employees by region



As in the past years, the company consistently continued along the path for equal opportunities in the year 2011. A series of problem areas were identified together with top managers, and targets and measures for the future were defined for the purpose of a sustained establishment of equal opportunities in the company. As a result, working groups were set up to develop concrete measures related to different topics. At the same time, RHI is proud to be invited repeatedly to panel discussions and presentations as a best practice example due to the expertise we have gained in this area. Last year RHI extended the cooperation on the topic of equal opportunities with the Federation of Austrian industries. In addition to participating in the program "Zukunft Frauen" ("Future Women"), the company also actively contributes to the working group "Frauen Führen" ("Women Lead"). The objective of this working group is to promote equal opportunities on the entrepreneur side and to improve the situation of women in management positions. This was manifested with the signature of a corresponding declaration at RHI AG.

As a globally operating company for many years, RHI continues to count on the positive cooperation of the employees with different cultural backgrounds. This applies not only to the headquarters in Vienna, where 16 different nationalities work together by now, but also worldwide, with currently 65 nationalities.

Training in the RHI Group

In the long term, demographic changes and the massive lack of qualified staff will cause an enormous burden for companies. In order to counteract these tendencies, RHI still relies on outstanding apprentice training at all of its sites. The training goes far beyond requirements and promotes both young people and RHI as an attractive employer. Apart from the proven measures like team building, preventive healthcare and presentation techniques, new training courses in the methods of modern production, occupational safety and energy efficiency were added in the year 2011. Moreover, apprentices' work experience abroad was extended further. This program includes not only sites in Austria, but also in Lugones, Spain and Clydebank, Scotland. This commitment to continuous and excellent apprentice training will secure experienced and highly motivated staff for RHI in the future. The Radenthein plant received an award as apprentice training company of the year 2011.

Personnel development

In the year 2011 the focus of personnel development was placed on the further development of top managers in the group. An individual development plan for this target group was established by means of a 360° feedback. In addition, the first multi-level development program was prepared and introduced in order to make a customized offer to specialists without any direct management responsibilities. Furthermore, a multi-level development program designed specifically for the needs of managers at the RHI plants was adopted. This program will be started in the year 2012.

Health and safety at work

It is getting increasingly important for companies to demonstrate the consistent integration of occupational safety into the company processes vis-à-vis employees, customers and other business partners. This is done to a significant extent by handling risks responsibly and making work and business processes, products and services safe. In addition, increasing legal requirements, the development of economic guidelines and measures of personnel management also contribute greatly to strengthening safety at work.

RHI has accounted for this development and newly regulated the responsibilities in the year 2011. The result is direct accountability to the respective production managers.

Dealing with social partners

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

Personnel indicators

	2011	2010	Change
Revenues in € million	1,758.6	1,522.9	15.5%
Personnel expenses in € million	350.4	345.1	1.5%
Average annual number of employees	7,883	7,260	8.6%
Number of employees at 12/31	7,925	7,266	9.1%
Personnel expenses in % of revenues	19.9	22.7	(12.3)%
Personnel expenses per employee in € 1,000	44.5	47.5	(6.3)%
Revenues per employee in € 1,000	223.1	209.8	6.3%
Value added per employee in € 1,000	63.6	64.9	(2.0)%

Sustainability

RHI will publish its first sustainability report according to GRI (Global Reporting Initiative) in April 2012. Therefore, information on the sustainability performance is only presented in a condensed form in this chapter; more detailed information on the individual topics will be provided in the RHI Sustainability Report in the future. Information regarding health and safety at work is contained in the chapter "Employees" of this report.

RHI strives to increase the company value for all shareholders on a sustained basis and in the long term. The objective is a balance between profitability and cost efficiency, employee satisfaction and long-term value increase. At the same time, resources are extracted in an ecologically and economically sustainable manner and raw materials are used efficiently. With its production sites, RHI makes an essential contribution to added value in structurally weak regions and continuously supports social projects and facilities.

Integrated Management System

The Integrated Management System (IMS) provides standardized control of management systems in the areas of environmental protection, occupational safety, health, and to ensure legal security at the individual sites. An IMS group officer, together with the IMS officers at the sites, is in charge of maintaining and optimizing the local management systems. To support this, internal and external audits and certification programs are conducted on a regular basis.

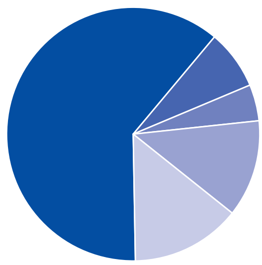
Quality management

In 2011, 36 sites (production facilities and sales companies) were externally re-certified in accordance with ISO 9001:2008 and 28 sites in accordance with ISO 14001:2004 by Lloyd's Register Quality Assurance, Vienna. The good implementation of the internal audit system and the realization of improvement potential were verified as the basis for the certification period 2012–2014 by Lloyd's Registers.

In order to enhance the high level of the RHI IMS auditors further, extensive training courses for auditors were conducted in Austria, Germany, and Mexico in 2010; in 2011 courses comprising contents of OHSAS 18001 (Occupational Health and Safety Assessment Series) were added. First preparations for the planned introduction of the OHSAS 18001 in the RHI Group have thus been completed.

In 2011, a survey on customer satisfaction in the Steel Division was conducted in the sales regions "South America" and "Asia/Pacific" including topics such as product and service quality, sustainability, brand loyalty and criteria for the selection of suppliers. The outcome showed some known results (high brand loyalty, high expectations of products, good service quality), but also unexpected results (importance of brands for choice of suppliers, recycling concepts, etc.). The evaluations serve the sales regions to derive and pursue measures and are reported to the Management Board. Preparations to continue the systematic customer survey are underway for 2012.

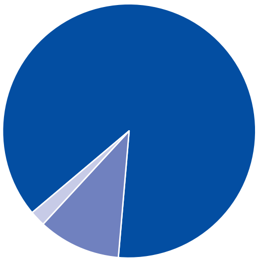
Energy distribution by source 2011



Environment and energy

The absolute energy consumption amounted to 2,874,793 megawatt hours in the year 2011, which corresponds to a 10% increase on the previous year. On the one hand, this was due to an increase in production in 2011; on the other hand, RHI extended its monitoring and reporting system and included another five sites in the overall reporting. The increase was related in particular to the consumption of propane, oil and diesel. The average specific energy consumption for total production (products of all sites) recorded a 5% decline in 2011 in comparison with 2010.

CO_2 reduction through energy efficiency



There is an inseparable correlation between the use of energy and emissions because CO_2 emissions decline as energy consumption is reduced. Moreover, energy efficiency is the least expensive and most efficient method of a long-term CO_2 reduction. Based on the long-standing experience with energy efficiency analyses and programs, RHI introduced its own, energy management system (EnMS) throughout the group, which has been implemented at all sites worldwide. The EnMS allows to systematically evaluate savings potential and to realize it throughout the group as part of efficiency projects. Energy efficiency is accomplished by continuous process optimization in all business units, by the use of optimal units and sources of energy as well as by the optimization of energy costs.

In the year 2011, CO_2 emissions worldwide amounted to roughly 1.25 million tons. The increase in emissions by some 8% compared with the previous year is attributable to increased production as well as the extension of emissions monitoring and reporting.

Environmentally relevant investments

RHI continuously invests in measures to reduce the impact on the environment. In the year 2011, 13.5 million euros were invested in environmental projects and measures, which corresponds to 11 % of the total investments in 2011. The focus was placed on dust reduction measures, energy efficiency and waste heat recovery. The following projects represent a few examples:

- In raw materials production in Breitenau, Austria, a new particulate filter system was installed in the lepol kiln. The particulates created in the kiln through the decay of the raw material are returned to the firing process. At the same time, the hot exhaust gas at the end of the firing process is used for heating the raw magnesite. Thanks to this system, particulates emissions were cut by 99% to less than 20 mg/m^3 of exhaust gas. At the same time, the gas consumption in the kiln was reduced by 350,000 m^3, which corresponds to the annual consumption of 180 households or 700 metric tons of CO_2.
- With the installation of new filters in the chimney of the multiple-hearth kiln at the production site at Dashiquiao, China, the particulates created are returned to the process, thus preventing material loss. In addition, the new filters enable constant energy supply with LPG and consequently lower specific energy consumption.
- At the Turkish site Eskisehir, filters were installed in the plants for the screening and treatment of raw materials in order to prevent particulates emissions on a sustained basis.
- At the production site in Niederdollendorf, Germany, a new fluoride filter system was installed in the tunnel kiln, which is state-of-the-art and ensures that emission limits are complied with on a permanent basis.
- RHI started the project "Stretchhood packaging – refractories optimally packaged" in 2009. This innovative packaging solution with an intelligent film to safeguard goods during transport is easy to handle, offers the best possible protection during the transport of the refractory materials, reduces waste at the customer's site and contributes to energy reduction. Since the project started, twelve plants have already changed to Stretchhood. The project was considered by the Austrian initiative to prevent waste and was nominated for the Austrian CSR award TRIGOS.

Waste

In the year 2011, RHI recorded a waste volume of 71,757 metric tons. The massive increase in the total waste volume in 2011 in comparison with the previous year is predominantly attributable to one-off effects including the disposal of old rails (non-hazardous waste) at the Mainzlar plant, Germany.

Recycling

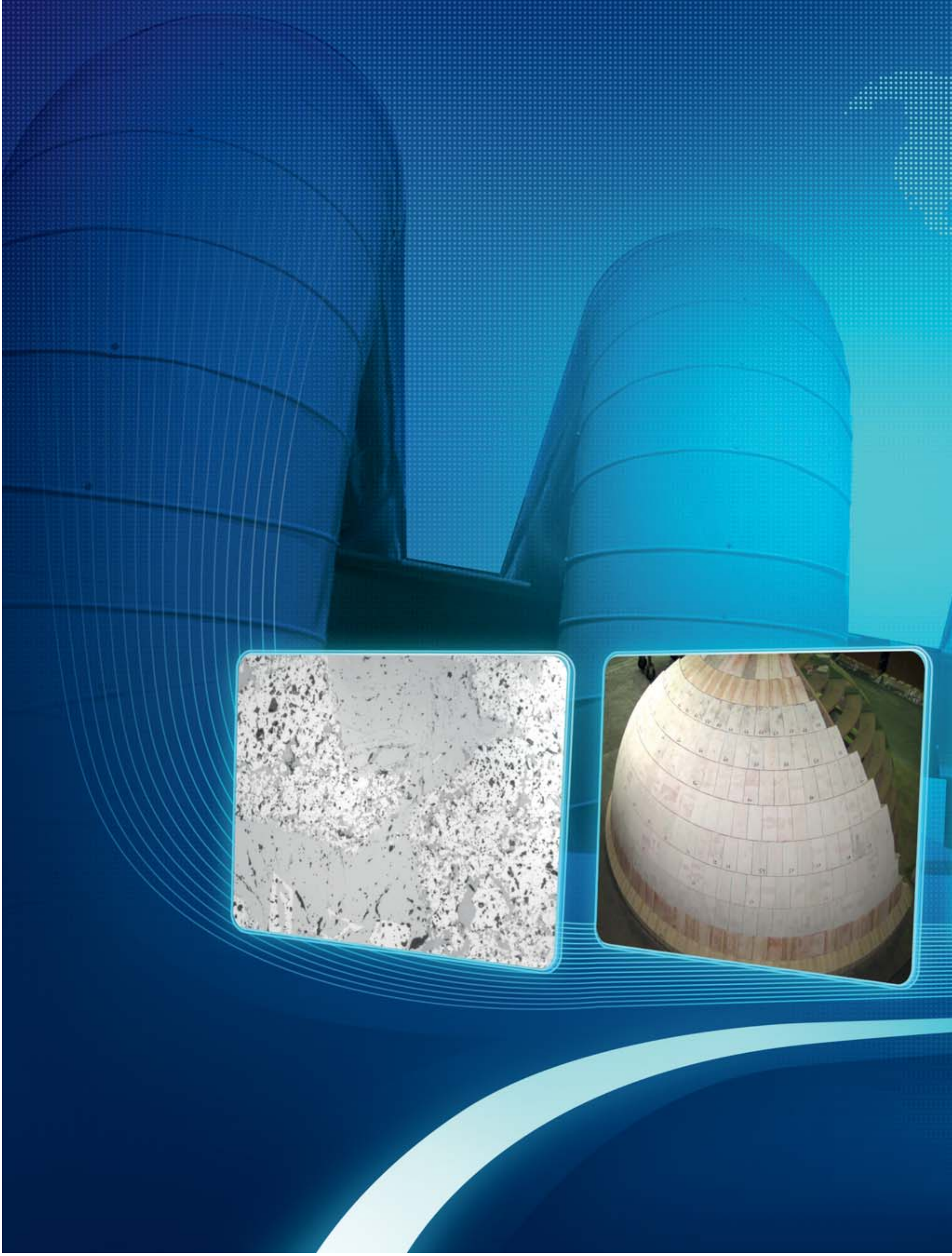
The use of secondary raw materials is gaining increasing strategic significance at RHI. Employing different recycling materials not only counters rising raw material prices, but also accomplishes a significant reduction of the ecological footprint. A decrease in CO_2 emissions and energy savings are important key words to be named in this context.

RHI started a project with the support of R&D in order to substantially raise the volume of the currently used refractory revert materials in the years to come. In the year 2011, RHI used approximately 80,000 metric tons of refractory revert materials.

Social responsibility

The responsibility to society is a self-commitment and a great concern to the company. At the production sites, RHI makes an important contribution to the value added locally and supports a number of programs, especially related to sports promotion, disadvantaged groups and the environment. Examples for 2011 include:

>> The Austrian sites placed their focus primarily on the support of sports clubs and relief organizations such as the Red Cross or the Samariterbund in the reporting period. The Hochfilzen site continued the ongoing recultivation of open-cast mining at the Weißenstein in 2011.
>> Support of the SOS Children's villages was continued in 2011.
>> The social activities of RHIs locations in Germany aimed at supporting financially weak and disadvantaged population groups in 2011.
>> The RHI site Eskisehir supported needy students in 2011 through a national aid organization and the project "World environmental week", whose aim is to motivate students to protect the environment. Moreover, the efforts in reforestation and re-cultivation measures by the Turkish plant were awarded by the environmental authority in 2011.
>> In Mexico, RHI continued to support an organization which makes operations free of charge possible for children with a heart condition in 2011 and supports the children of an orphanage. Moreover, the creation of green areas around the plant was continued.



WE MAKE THE FUTURE OF ENVIRONMENT, ENERGY AND CHEMICALS POSSIBLE:

WITH EXEMPLARY SOLUTIONS FOR STATE-OF-THE-ART PROCESS TECHNOLOGIES

Ulrich Nebe
Head of Marketing – Environment, Energy, Chemicals, RHI DINARIS GmbH, Wiesbaden

"Being a world market and technology leader, we offer extensive full-range refractory solutions for the highly specialized plants in the environmental and energy technologies and in the chemical and petrochemical industries. In this segment, we offer our customers not only future-oriented engineering adapted to the respective processes, for instance in state-of-the-art gas-to-liquid processes for the production of pure, environmentally friendly synthetic fuels made of natural gas, but also an uninterrupted chain of services. We offer the entire range of services from the concept and planning of units, consulting and choice of the appropriate refractory products, to delivery, logistics and extensive maintenance, inspection and after-sales services."

Research & Development

Strategic approach

The consistent continuation and the expansion of the basic strategic concept to position the Technology Center Leoben as the hub of company's innovative power have proven successful. Thanks to the implementation of new findings of knowledge management, all elements of the global scientific network are now interacting seamlessly. Scientists from a wide variety of disciplines equally contribute to progress in product technology as application-oriented experts in the technologically leading companies of our customer industries.

Cooperation with national and international university institutes, carried by a great number of scientific projects and teams, ensures that the Technology Center Leoben, with more than 150 highly qualified employees, has access to human resources and is able to find solutions to scientific questions together with them.

As one of the world's leading companies in the refractory industry, RHI continuously develops new product concepts to marketability and offers technologically leading users solutions for specific refractory problems. This has made short response times in product development possible.

Environmental and energy efficiency

One of the central tasks of R&D is still the implementation of the highest environmental and energy efficiency standards in the group. Going far beyond the certifications customary in the industry, R&D works on the constant improvement of energy efficiency in all process steps and on the substitution of all environmentally relevant materials with harmless substances. In many cases, entirely new approaches have to be found in order to achieve or outperform the technical results of the classical products with new, environmentally friendly products.

As in the previous years, the R&D department carried out an essential task as part of the implementation of the REACH Regulation (EC No. 1907/2006, "**R**egistration, **E**valuation, **A**uthorisation and Restriction of **Ch**emicals") of the European Union. On the one hand, all registrations of the chemicals used are centrally controlled, managed and carried out by R&D; on the other hand, R&D looks for alternatives to chemicals which may no longer be used after the implementation of the regulation within the EU or are considered to be critical and alternative substances in the products are reviewed.

Raw material development and backwards integration

The Technology Center in Leoben has worked on the research and exploration of new raw material sources for the group for decades. In the reporting period, the increase in the self-sufficiency level of magnesia-based raw materials was supported with a series of pre-feasibility and feasibility studies. In addition, the plant design and project management were carried out by R&D for the most important new projects.

In this area, research activities range from the analytical scientific evaluation of material samples to the support of the local reservoir engineering and the development of new synthetic raw materials based on the latest melting technology, whose chemical and structural concept is the result of intensive phase-theory studies and extensive simulation work. This is where key materials are developed that are exclusively available to RHI and in many cases protected by patent, especially when it comes to the respective finished products.

General thrust and R&D performance in 2011

The most important development trends in R&D in the year 2011 were:

>> the development of future-oriented natural and synthetic raw materials;
>> the systematic analysis of fused raw materials to characterize phase composition and association of mineral phases;
>> the development of special problem solutions for the RHI customer industries;
>> the continuous further development of manufacturing technologies for raw materials, intermediate and finished products through process data collection systems and studies related to new manufacturing technologies for all product portfolios;
>> the development of new processing machines and easy-to-process lining methods with a view to occupational safety;
>> thermodynamic, thermophysical, chemothermal and fluid dynamic simulation methods to support the product development process;
>> basic research studies in the area of thermodynamcis, thermochemistry and the corrosion of refractory products in operational use;
>> environmental optimization work in the production and application of refractory raw materials, binding agents and finished products;
>> the use of scrap materials after their operational use;
>> the development of innovative, non-destructive test methods for finished products;

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

>> Development of a technology for the production of large-format magnesia chromite bricks with an individual weight of up to 80 kilograms for a significant expansion of the technological edge;
>> Development of basic burnt bricks for the lime industry based on recycled refractory products (material cycle);
>> Development of gunning mixes with excellent initial adhesion in the hot repair of vessels and units in the steel industry;
>> Successful market launch of the patented, absolutely environmentally friendly and energy saving a refractory lining system "cold setting tundish mix" for the steel tundish vessel in continuous casting;
>> Development of a new, highly oxidation-resistant binder system for wear parts of the slide gate system for improved service life and enhanced operational safety in the steel mill;
>> Development of a new product line for the slide gate system, which not only saves resources but also contributes to environmental protection;
>>Development and implementation in manufacturing of a high-quality brick grade based on zirconium oxide for applications in the area of petrochemicals;
>> Introduction of the new manufacturing technology "Vibrocasting" for large-format blocks, especially for the glass industry;
>> Development and market launch of sol-bonded gunning mixes in the cement industry;
>> Development of a bonding technology for non-basic mixes with nonoxide parts for high wear resistance and thermal shock resistance of finished products;
>> Development of non-basic mixes for the production of burner and oxygen lances for the steel industry;
>> Development of highly wear resistant non-basic mixes for new methods for direct reduction of iron ores;

- >>Advancement of environmentally friendly binder systems for magnesia carbon bricks for applications in the steel industry;
- >>Technology for the production of high-quality raw materials from recycling materials with increased return rates of used products;
- >>Development of a new method to assess the corrosion resistance of refractory materials to different types of slag in variable ambient atmospheres;
- >>Development of materials for the slag band of isostatically pressed components, which allow operating components in steel casting without preheating;
- >>Development of flow-optimized isostatically pressed submerged nozzles, especially in the high technology segment of thin slab units;
- >>Examination of burner configurations in order to improve heat transition and increase energy efficiency in burning units further.

Patents & intellectual property

In 2011, the patent portfolio of RHI AG was again strengthened through several newly granted patents. The active management of the intellectual property in the form of patents and trademarks contributes to the international protection of the products lines and additionally represents a measurable quantity for technology leadership in the area of refractory materials and linings.

Training center for the cement industry

On October 4, 2011, RHI opened a training center for customers from the cement industry at the Technology Center Leoben. This enables RHI customers to attend seminars of several days where they see the lining of the cement rotary kiln with brick materials using state-of-the-art lining equipment, and to practice the handling of monolithic lining materials and implement it in practice.

Investments in the innovative power and the future of the company

In the reporting year 2011, investments in research and development amounted to more than 1% of the group's revenues again, which exceeds the industry average by far.

Great importance was attached to the training of young colleagues again in the past year. In R&D, more than ten young people were trained in different technical apprenticeships.

In addition, R&D employees also conferred their acquired knowledge to colleagues from all other areas of the group in internal training programs and to RHI customers in external seminars for specific customer segments. New findings and developments of R&D thus rapidly benefit the global circle of customers – one of the essential and central elements of RHI's success.

Risk Management, Accounting & Internal Control System

Risk management process

As a globally operating group, RHI is exposed to a variety of risks and has had a structured risk management system in place for corporate management control for several years. The following objectives are pursued with this system. The systematic and decentralized collection, assessment and control of risks lead to awareness of and transparent dealing with risks throughout the group. The regular evaluation of the risk situation and the corresponding information to the Management Board or the respective responsible managers allow taking controlled risks and using the closely related opportunities. Internalized risk management thus represents an essential element in competition.

Risk owners in the operating units and the central group functions identify, assess and control risks where they occur. Risk coordinators ensure that identified risks and defined measures are dealt with in an interdisciplinary manner and across departments. Central risk management is part of the finance department and is responsible for the risk management process and its development. It provides standardized methods and tools for the identification and assessment of risks throughout the group.

The identification of risks is supported by defined risk areas and categories of risks. Risks are then measured according to the probability of their occurrence and possible impact on the EBIT of the unit concerned, taking into account the effect of control measures that have already been taken. In the case of significant risks, the possible effect on cash is also considered. Central risk management summarizes the risk situation for the respective area of responsibility for the stakeholders of the risk management process and provides the information in risk reports on a quarterly basis. This process is supported by a professional integrated risk management software. Risk policy and risk management processes are set out in a risk manual and are accessible to all employees 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 and development, employees, finance, IT, compliance and legal matters as well as natural disasters were defined. The risk analysis identified the following key risks, which are most likely to influence the asset and financial position of the group:

Risk area: Sales

Steel production: The development in steel production in the markets relevant to RHI has great influence on the revenues of the Steel Division, the division with the highest revenues. The clear strategic focus of the RHI Group to expand its market share in the BRIC countries enables the group to put its revenues and earnings on a more diversified base and reduce dependence on the individual regions.

Risk area: Strategy

Political and legal environment: The RHI Group continues to pursue an expansion strategy into the emerging markets and is therefore confronted with higher risks than in its traditional core markets and locations. These risks are controlled through spreading, monitoring and the development of local know-how. These measures allow the RHI Group to use opportunities in the growth regions.

Company structure and organization: The growth strategy of the RHI Group naturally poses new challenges for the company structure. This risk is accounted for by ongoing reviews and optimization of internal structures.

Risk area: Supply Chain

Development of raw material, energy and transport prices: Being a globally operating producing company, RHI is subject to the development in the global procurement markets. In particular, price fluctuations in the commodity markets represent a significant risk factor for the group. This risk should have been reduced significantly by the end of 2012 as a result of the clear strategy to increase the self-sufficiency with raw materials by expanding the group's own production and acquiring new sites.

Financial risks

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

The credit risk in the RHI Group is primarily related to operating 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 euro area.

Financial reporting process

At the aggregated level, the financial reporting process at RHI consists of preparation, consolidation, audit and publication. The preparation and consolidation are based on the rules and provisions laid down in the group accounting manual. This manual includes, amongst other things, a harmonized chart of accounts as well as rules regarding measurement and recognition. The group accounting manual is adapted regularly to the changing standards of IFRS. In addition, the preparation process itself requires controls at different levels of the process, whose monitoring is partially system-assisted.

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 could have the most sustainable effects on the financial reporting of the RHI Group.

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 at the 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 audit 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 2011, two reports were submitted to the audit committee.

Central elements of the ICS include regular audits of compliance with the institutionalized 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 2011, the rules with respect to ensuring internal controls were re-issued, which contributed to a further consolidation of these essential elements.

The RHI Group's guidelines pertaining to the ICS follow the basic structures of the internationally recognized 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 December 31, 2011, the share capital of RHI AG amounted to € 289,376,212.84 (12/31/2010: € 289,376,212.84) and consisted of 39,819,039 (12/31/2010: 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 December 31, 2011 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 January 11, 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 December 10, 2009.

In addition, two shareholders who held a stake exceeding 5%, which is subject to disclosure, were known to RHI as of December 31, 2011: FEWI Beteiligungsgesellschaft mbH, Germany, to whom more than more than 10% of the voting rights were attributable, and Raiffeisen Bank International AG, Austria, to whom more than 5% of the voting rights were attributable.

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

Authorized capital 2008

The Annual General Meeting of May 29, 2008 authorized 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 May 29, 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 authorized 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.

Authorized capital 2010

The Management Board was authorized by resolution of the Annual General Meeting of RHI AG on April 30, 2010, in accordance with § 169 of the Stock Corporation Act, to increase share capital, without any further consent by the Annual General Meeting until April 30, 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 May 6, 2011, the company was authorized 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; the shares can be acquired at the price of the day on which this authorization to issue shares to employees and executives of the company as well as to members of the management, executives and employees of Group companies within the employee stock ownership plan "4 plus 1" is exercised. The authorization 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."

A compensation agreement has been concluded with one member of the Management Board for the 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 Supervisory Board consists of a minimum of three members.

Material Events after the Balance Sheet Date

With a purchase contract dated January 18, 2012, Radex Vertriebsgesellschaft mbH, Leoben, acquired the remaining 50% share in Stopinc AG, Hünenberg, Switzerland, at a purchase price of € 17.4 million with retroactive effect from January 1, 2012. RHI now holds 100% of the shares and voting rights. Stopinc AG and its subsidiaries in the USA, China and Switzerland manufacture and sell special products used in the steel and nonferrous metals industries.

Vienna, 02/17/2012

Management Board

Franz Struzl
CEO

Mark J. Eckhout
CFO

Giorgio Cappelli
COO Steel Division

Manfred Hödl
COO Industrial Division and
Raw Materials Division

RHI Consolidated Financial Statements 2011

RHI Consolidated Statement of Financial Position 2011

in € million	Notes	12/31/2011	%	12/31/2010	%
ASSETS					
Non-current assets					
Property, plant and equipment	(1)	512.1	30.3	436.2	30.1
Goodwill	(2)	17.2	1.0	14.4	1.0
Other intangible assets	(3)	45.9	2.7	44.7	3.1
Shares in associates	(4)	14.5	0.9	15.5	1.1
Other non-current financial assets	(5)	41.7	2.5	37.2	2.6
Other non-current assets	(6)	11.0	0.6	0.3	0.0
Deferred tax assets	(7)	105.7	6.3	98.8	6.8
		748.1	**44.3**	**647.1**	**44.7**
Current assets					
Inventories	(8)	426.5	25.2	432.6	29.9
Trade and other current receivables	(9)	361.0	21.4	303.5	20.9
Income tax receivables		7.0	0.4	4.7	0.3
Other financial assets	(10)	2.8	0.2	2.0	0.1
Cash and cash equivalents	(11)	144.5	8.5	58.8	4.1
		941.8	**55.7**	**801.6**	**55.3**
		1,689.9	**100.0**	**1,448.7**	**100.0**
EQUITY AND LIABILITIES					
Equity					
Share capital	(12)	289.4	17.1	289.4	20.0
Group reserves	(12)	148.9	8.9	31.0	2.2
Equity attributable to equity holders of RHI AG		438.3	26.0	320.4	22.2
Non-controlling interests	(12)	0.6	0.0	0.5	0.0
		438.9	**26.0**	**320.9**	**22.2**
Non-current liabilities					
Non-current financial liabilities	(14)	285.7	16.9	236.3	16.3
Deferred tax liabilities	(7)	10.9	0.6	3.6	0.3
Personnel provisions	(15)	289.9	17.2	308.5	21.3
Other non-current provisions	(16)	3.5	0.2	3.3	0.2
Other non-current liabilities	(17)	7.5	0.4	6.3	0.4
		597.5	**35.3**	**558.0**	**38.5**
Current liabilities					
Current financial liabilities	(14)	220.3	13.1	163.5	11.3
Trade and other current payables	(18)	331.8	19.6	293.2	20.2
Other financial liabilities	(10)	0.3	0.0	1.8	0.1
Income tax payables		29.1	1.7	34.5	2.4
Current provisions	(19)	72.0	4.3	76.8	5.3
		653.5	**38.7**	**569.8**	**39.3**
		1,689.9	**100.0**	**1,448.7**	**100.0**

RHI Consolidated Income Statement 2011

in € million	Notes	2011	%	2010	%
Revenues	(22)	1,758.6	100.0	1,522.9	100.0
Cost of sales	(23)	(1,395.0)	(79.3)	(1,188.0)	(78.0)
Gross profit		**363.6**	**20.7**	**334.9**	**22.0**
Sales and marketing costs	(24)	(109.8)	(6.3)	(104.4)	(6.9)
General and administration costs	(25)	(110.1)	(6.3)	(100.3)	(6.6)
Other income	(26)	10.4	0.6	16.4	1.1
Other expenses	(27)	(5.5)	(0.3)	(7.8)	(0.5)
Operating result		**148.6**	**8.4**	**138.8**	**9.1**
Reversal of impairment losses	(28)	0.0	0.0	21.0	1.4
Restructuring costs	(29)	2.3	0.2	(33.8)	(2.2)
Operating results (EBIT)		**150.9**	**8.6**	**126.0**	**8.3**
Interest income	(30)	1.5	0.1	2.9	0.2
Interest expenses		(19.5)	(1.1)	(17.0)	(1.1)
Other financial results	(31)	(12.9)	(0.8)	(13.9)	(0.9)
Financial results		(30.9)	(1.8)	(28.0)	(1.8)
Results from associates		5.5	0.3	6.6	0.4
Profit before income taxes		**125.5**	**7.1**	**104.6**	**6.9**
Income taxes	(32)	(4.7)	(0.2)	0.0	0.0
Profit for the year from continuing operations		**120.8**	**6.9**	**104.6**	**6.9**
Profit for the year from discontinued operations	(33)	**0.7**	**0.0**	**1.1**	**0.1**
Profit for the year		**121.5**	**6.9**	**105.7**	**7.0**
Profit/(loss) attributable to					
equity holders of RHI AG		121.5	100.0	105.9	100.2
non-controlling interests		0.0	0.0	(0.2)	(0.2)
		121.5	100.0	105.7	100.0
in €					
Earnings per share (basic and diluted)					
Continuing operations	(40)	3.03		2.63	
Discontinued operations	(40)	0.02		0.03	

Explanations regarding the reclassified comparative figures for 2010 are provided in the notes under figure (27).

RHI Consolidated Statement of Comprehensive Income 2011

in € million	2011	2010
Profit after income taxes	**121.5**	**105.7**
Other results recognized in equity net of income taxes		
Currency translation differences		
Unrealized results from currency translation	0.2	32.7
Reclassification to income statement due to disposal of subsidiaries	0.0	0.2
Actuarial results arising from defined benefit pension plans and termination benefits	14.7	(25.2)
Deferred taxes on actuarial results arising from defined benefit pension plans and termination benefits	(4.1)	7.0
Unrealized results from fair value change on financial assets available for sale	5.6	0.0
	16.4	**14.7**
Total comprehensive income	**137.9**	**120.4**
Total comprehensive income attributable to		
equity holders of RHI AG	137.8	120.3
non-controlling interests	0.1	0.1
	137.9	120.4

RHI Consolidated Statement of Changes in Equity 2011

	Equity attributable to equity holders of RHI AG							
		Group reserves						
in € million	Share capital	Additional paid-in capital	Fair value reserves	Currency translation reserves	Accumu-lated results	Total	**Non-controlling interests**	**Total equity**
12/31/2010	**289.4**	**38.3**	**3.1**	**(28.7)**	**18.3**	**320.4**	**0.5**	**320.9**
Total comprehensive income	-	-	5.6	0.2	132.0	**137.8**	**0.1**	**137.9**
Dividends	-	-	-	-	(19.9)	**(19.9)**	**-**	**(19.9)**
12/31/2011	**289.4**	**38.3**	**8.7**	**(28.5)**	**130.4**	**438.3**	**0.6**	**438.9**

	Equity attributable to equity holders of RHI AG							
		Group reserves						
in € million	Share capital	Additional paid-in capital	Fair value reserves	Currency translation reserves	Accumu-lated results	Total	**Non-controlling interests**	**Total equity**
12/31/2009 adjusted[1)]	**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**
Changes in non-controlling interests	-	-	-	-	(1.5)	**(1.5)**	**(4.1)**	**(5.6)**
12/31/2010	**289.4**	**38.3**	**3.1**	**(28.7)**	**18.3**	**320.4**	**0.5**	**320.9**

Explanations regarding equity are provided in the notes under figure (12).

1) Notes on the adaptation are provided in the notes to the consolidated financial statements 2010, section "Accounting principles, general".

RHI Consolidated Cash Flow Statement 2011

in € million	Notes	2011	2010
Profit for the year from continuing operations		120.8	104.6
Adjustments for			
income taxes		4.7	0.0
depreciation and amortization charges		53.7	53.7
impairment losses of property, plant and equipment and intangible assets		0.2	14.8
reversal of impairment losses of property, plant and equipment and intangible assets		(0.7)	(22.5)
reversal of impairment losses on financial assets		(0.2)	(1.1)
gains from the disposal of property, plant and equipment		(5.5)	(0.3)
interest result		18.0	14.1
dividend income		(0.8)	(0.7)
results from associates		(5.5)	(6.6)
other non-cash changes		13.6	13.6
Changes in assets and liabilities			
Inventories		7.4	(125.5)
Trade receivables		(40.3)	(28.9)
Other receivables and assets		(15.2)	(14.6)
Provisions		(21.5)	(18.6)
Trade payables		14.3	28.1
Other liabilities		7.4	(7.3)
Cash flow from operating activities		**150.4**	**2.8**
Income taxes paid		(26.0)	(15.1)
Net cash flow from operating activities	(36)	**124.4**	**(12.3)**
Acquisition of subsidiaries net of cash		(36.1)	0.0
Sale of subsidiaries net of cash		0.0	(0.9)
Investments in non-controlling interests		(0.4)	(6.1)
Investments in property, plant and equipment and intangible assets		(86.6)	(57.4)
Cash inflows from the sale of property, plant and equipment		10.8	2.5
Changes in non-current receivables		(2.0)	2.1
Investments in financial assets		(0.1)	(1.4)
Dividend payments from associates		6.6	3.4
Investment subsidies received		0.0	1.1
Interest received		1.5	1.6
Dividends received		0.8	0.8
Net cash flow from investing activities	(37)	**(105.5)**	**(54.3)**
Dividend payments to shareholders of RHI AG		(19.9)	0.0
Proceeds from non-current borrowings and loans		119.8	26.3
Repayments of non-current borrowings and loans		(59.7)	(63.4)
Changes in current borrowings		43.3	32.7
Interest payments		(16.2)	(13.9)
Net cash flow from financing activities	(38)	**67.3**	**(18.3)**
Cash flow from continuing operations		**86.2**	**(84.9)**
Cash flow from discontinued operations		**(0.2)**	**0.0**
Total cash flow		**86.0**	**(84.9)**
Change in cash and cash equivalents		**86.0**	**(84.9)**
Cash and cash equivalents at beginning of year		58.8	139.8
Change in cash and cash equivalents due to currency translation		(0.3)	3.9
Cash and cash equivalents at year-end		144.5	58.8

RHI Notes to the Consolidated Financial Statements 2011

The RHI Group

RHI is a global industrial group, which maintains its headquarters in Austria. RHI 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 supplies the cement, lime, glass, non-ferrous metals, environment (waste incineration), energy (refractory construction) and chemical (petrochemicals) 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 a member of the ATX and the Prime Market of the Vienna Stock Exchange.

Accounting principles, general

The financial year of the RHI Group comprises the period from January 1 to December 31. The financial statements of all companies included in consolidation were prepared as of the Group closing date on December 31, 2011.

The consolidated financial statements were prepared pursuant to § 245a of the Austrian Commercial Code in accordance with the 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 were prepared applying the principle of historical cost. Derivative financial instruments and financial assets classified as available for sale as well as plan assets as defined in IAS 19 are exempted and measured at fair value. IAS 11 is applied for long-term construction contracts.

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 recognized 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 2011
These consolidated financial statements were released by the Management Board on February 17, 2012.

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 for examination on March 27, 2012. 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 also applicable in the EU, were applied for the first time in the financial year 2011:

>> 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

IAS 24 "Related Party Disclosures" was changed with a view to the definition of related entities and related persons.

The changes made to IAS 32 "Financial Instruments: Presentation" are related to the measurement of rights issues if they are denominated in a currency other than the functional currency of the company.

The amendments to the IFRSs contain changes and clarifications of various standards and interpretations.

The amended IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" enables the presentation of the benefit from a prepaid contribution as an asset.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" governs recognition in the case of extinguishing a financial liability through issue of equity instruments.

The initial application of the new or revised standards had no 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 the following new standards and amendments to standards and interpretations, which do not have to be applied mandatorily during the 2011 financial year yet. They were not applied prematurely on a voluntary basis.

IFRS 7 "Disclosures - Transfers of Financial Assets", published in November 2011, had been adopted by the EU at the time of the preparation of the consolidated financial statements and published in the Journal of the European Union. This amendment is related exclusively to disclosure requirements and therefore has no effect on the assets, liabilities, financial position and profit or loss of the Group.

The following standards were issued by the IASB, but had not yet been adopted by the EU at the time of the preparation of the consolidated financial statements:

>> IAS 1 (amended 2011): Presentation of Items of Other Comprehensive Income
>> IAS 12 (amended 2010): Deferred Tax: Recovery of Underlying Assets
>> IAS 19 (amended 2011): Employee Benefits
>> IAS 27 (revised version 2011): Separate Financial Statements
>> IAS 28 (revised version 2011): Investments in Associates and Joint Ventures
>> IAS 32 (amended 2011): Offsetting Financial Assets and Financial Liabilities
>> IFRS 7 (amended 2011): Disclosures – Offsetting Financial Assets and Financial Liabilities
>> IFRS 9 (2009, amended 2011): Financial Instruments
>> IFRS 10 (2011): Consolidated Financial Statements
>> IFRS 11 (2011): Joint Arrangements
>> IFRS 12 (2011): Disclosures of Interests in Other Entities
>> IFRS 13 (2011): Fair Value Measurement
>> IFRIC 20 (2011): Stripping Costs in the Production Phase of a Surface Mine

The amendments to IAS 1 "Presentation of Financial Statements", IAS 32 "Offsetting Financial Assets and Financial Liabilities" and IFRS 7 "Financial Instruments: Disclosures" are related to disclosure requirements and clarifications.

The amended IAS 12 "Deferred Tax" includes clarifications for the recognition of deferred taxes for properties held as a financial investment, which are measured at fair value in accordance with IAS 40. For the measurement of deferred taxes, the presumption is introduced that the recovery of the carrying amount will be through sale, unless this presumption can be overturned in a concrete individual case. This amendment is applicable to all financial years starting on or after January 1, 2012.

IAS 19 "Employee Benefits" was extensively revised by the IASB. The changes refer to the treatment of defined benefit plans and benefits in the case of termination of employment. The main changes are related to the determination of the expected income from plan assets and the elimination of the corridor method. As the RHI Group recognizes actuarial gains and losses in equity without recognition through profit and loss, no effects arise from the elimination of the corridor method. The changes are applicable to reporting periods starting on or after January 1, 2013.

In November 2009 IFRS 9 "Financial Instruments" was published. 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 "amortized cost" and "fair value". Whether an instrument qualifies for the category of amortized 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. With a decision from December 16, 2011, the IASB changed the mandatory effective date of first-time application to financial years that start on or after January 1, 2015. Moreover, it modified the relief from restating comparative periods and the associated disclosures in IFRS 7.

In May 2011 the IASB published the standards IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Agreements", IFRS 12 "Disclosure of Interests in Other Entities", IAS 27 (2011) "Separate Financial Statements", IAS 28 (2011) "Investments in Associates and Joint Ventures" and IFRS 13 "Fair Value Measurement", which are applicable to financial years which begin on or after January 1, 2013.

IFRS 10 supersedes the provisions on consolidation previously defined in IAS 27 "Consolidated and Separate Financial Statements" and SIC 12 "Consolidation – Special Purpose Entities" and explains a uniform control concept for all entities including special purpose entities. Hence, IAS 27 now only includes provisions regarding the accounting of investments in subsidiaries, joint ventures and associates in the separate financial statements of the parent company.

IFRS 11 supersedes IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities – Non-Monetary Contributions by Ventures", and the option to apply proportionate consolidation to joint ventures was eliminated.

In the new version of IAS 28, provisions for the accounting of joint ventures are added to the provisions governing the accounting of interests in associated companies, and the application of the equity method is stipulated for both cases.

IFRS 12 provides disclosure standards for consolidated financial statements and pools the disclosures for subsidiaries, jointly controlled entities, associated companies and structured entities. With IFRS 12, the disclosure requirements of IAS 27, IAS 28 and IAS 31 are superseded.

IFRS 13 defines a single framework for measuring fair value.

In October 2011, IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine” was published. This standard governs the accounting of the benefit of the stripping activity. The costs of stripping activities have to be accounted for in accordance with the principles of IAS 2 “Inventories” to the extent that the benefit from the stripping activity is realized in the form of inventory produced. The costs of stripping activity which provides a benefit in the form of improved access to ore is recognized as a non-current asset where it is probable that a future economic benefit arises, an ore or mineral body is identified and the related costs can be measured reliably. This standard is applicable to financial years starting on or after January 1, 2013.

The effects of these new or revised standards and interpretations are currently reviewed by RHI.

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 acquisition 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 recognized through profit or loss since January 1, 2010.

Identifiable intangible assets are accounted for separately. They are amortized 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 recognized immediately to profit or loss. Goodwill that arose prior to January 1, 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.

Shares in net assets of subsidiaries that are not attributable to RHI AG are shown separately as non-controlling interests as a component of equity. Puttable non-controlling interests are shown in current or non-current financial liabilities in accordance with their limited contractual term.

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 fully 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 recognized 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 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.

Unrealized 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	12/31/2011	12/31/2010	2011	2010
Brazilian real	BRL	2.41	2.22	2.33	2.35
Pound sterling	GBP	0.84	0.85	0.87	0.86
Chilean peso	CLP	673.23	621.61	671.36	683.57
Chinese renminbi yuan	CNY	8.15	8.74	9.09	9.03
Indian rupee	INR	68.99	59.44	64.78	61.10
Canadian dollar	CAD	1.32	1.32	1.38	1.38
Mexican peso	MXN	18.12	16.39	17.20	16.89
South African rand	ZAR	10.53	8.75	9.95	9.80
US dollar	USD	1.29	1.32	1.41	1.33

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 realize 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 capitalized 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 installments are discounted and recorded as liabilities. Current lease payments are apportioned between a finance charge and the amortization of the outstanding liability. As of the balance sheet date, no property, plant and equipment leased through finance leasing is presented. 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 capitalizable production overheads. Borrowing costs for investments in property, plant and equipment that were started after January 1, 2009 and have a project term of more than a year are capitalized if material.

Expected demolition and disposal costs at the end of an asset's useful life are capitalized 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 of the volume actually mined in proportion to the estimated volume.

When components of plant or equipment have to be replaced at regular intervals, the relevant replacement costs are capitalized as incurred if the criteria set forth in IAS 16 have been met. The carrying amount of the replaced components is derecognized. 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 realizable value and the carrying amount, are recognized as income or expense in the income statement.

D Goodwill

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

In accordance with IFRS 3, negative goodwill is recognized 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. They are only capitalized 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.

Capitalized development costs are amortized on a straight-line basis over the expected useful life, but over a maximum of 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 capitalized 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 an adequate, proportional share of overheads. Software is amortized over a period of four years.

Purchased intangible assets are measured at acquisition cost, which also includes related transaction costs, less amortization.

Acquired brand rights are not reduced by systematic amortization 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 amortized 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 amortized over a useful life of seven years. Land use rights are amortized 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 recognized 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 for which separate cash flows can be determined. These cash-generating units correspond to the divisional organization structure. These units reflect the market appearance and market presence and as such generate the largest part of the cash flows. In the Steel Division there are two such units, which are defined by the production stage in the process of steel production; in the Industrial Division, each of the four customer industries forms a separate cash-generating unit; in the Raw Materials Division, all production lines producing raw materials are combined in one cash-generating unit.

As in the prior year, the impairment test is based on the value in use. The discounted cash flow method is used, and incorporates the terminal value based on growth of 1.5%, 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, weighted by cash-generating unit, range from 8.50% to 9.22%. In the previous year interest rates ranged from 8.43% to 9.27%.

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 2011, it was verified that the assets were unimpaired.

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. The accumulated gains and losses from fair value measurement that are recorded under equity are only recognized to profit or loss when the financial asset is sold. Impairments are charged to profit or loss. Impairment losses on equity instruments recognized to profit and loss are reversed through equity. Reversals of impairment for debt instruments are recognized to profit and loss.

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 amortized cost, whereby the effective interest method is applied to receivables that are not interest-bearing or carry interest at a rate below the market level. Any doubt concerning the collectability of non-current receivables is reflected in the use of the lower realizable 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 recognized 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 recognized 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 recognized 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 recognizes 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 utilize the deferred tax assets.

The calculation of deferred taxes is based on the tax rate expected in the individual countries at the time of realization (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 realizable 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 capitalized.

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 recognized 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 recognizable risk of default. Specific cases of default are reflected in derecognition of the relevant receivables.

Receivables denominated in foreign currencies are translated using the exchange rate on the balance sheet date.

M Emission certificates

Emission certificates acquired for a consideration are recognized at cost and recognized to profit and loss in the cost of sales when used up, written down to fair value or sold. In the case of a shortfall, a provision is formed equivalent to the fair value of the lacking emission certificates.

Emission certificates allocated free of charge are not recognized in the balance sheet. Proceeds from the sale of these rights are recognized under revenues.

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 that are denominated in a currency other than the functional currency. 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. Unrealized valuation gains or losses are recognized to the income statement under other income or expense. The underlying transactions for the derivatives are carried at amortized cost.

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 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, and it is probable that an outflow of resources will be required to meet this obligation, and the amount of the obligation can be reliably estimated.

Non-current provisions are measured at their discounted 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.

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; a provision is not required. The RHI Group has defined contribution plans in Canada, Great Britain, the USA 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, Norway 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 recognized as a liability under the provisions for pensions. However, if the plan assets exceed the obligations and the company is entitled to the claims, the net position is shown under other non-current assets.

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 recognized 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 development of existing plan assets is determined specifically to the individual countries and depending on the fund structures as well as taking into account past experience values.

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.

Employees who joined an Austrian company before December 31, 2002 receive a one-off lump-sum termination benefit as defined by Austrian labor legislation if the employer terminates the employment relationship or when the employee retires. The amount of the termination payment depends on the relevant salary at the time of the termination as well as the number of years of service. These obligations are measured in accordance with IAS 19 using the projected unit credit method. Actuarial gains and losses are recorded directly to equity after the deduction of deferred taxes and shown in the statement of comprehensive income.

However, for all employment contracts beginning in Austria after December 31, 2002, employers are required to make regular contributions equal to 1.53% of the monthly wage/salary to a statutory termination benefit scheme. 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 5.0% (12/31/2010: 4.5%) and an increase by 3.6% (12/31/2010: 3.6%) in wages/salaries based on the projected unit credit method. Actuarial gains and losses are recognized 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.

Local labor laws and other similar regulations require certain Group companies to create provisions for part-time work for older employees. The discount rate amounts to 5.0% as of December 31, 2011 (12/31/2010: 4.5%).

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 recognized at fair value, and subsequently measured at amortized cost.

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

R Subsidies
Subsidies for the promotion of investments are recognized 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 recognized to income or loss in the periods in which the subsidized expenses are incurred. In the RHI Group, they mainly include subsidies for research and further education.

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

Revenue is realized 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 recognized after this acceptance has been received.

Revenue on construction contracts is realized 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 recognized under revenues.

Expenses are recognized to the income statement when a service is consumed or the costs are incurred.

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

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

Income taxes are recognized 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.

T Discontinued operations

Discontinued operations comprise the Insulating Division, which was sold in 2006, and the remaining activities of the Waterproofing Division, which were sold in 2008. Results and cash flows related to these former business units are shown separately in accordance with IFRS 5.

U Segment reporting

The RHI Group comprises the operating segments Steel, Industrial and Raw Materials. This segmentation of the business activities 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.

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.

The disclosures are made according to the preparation of the consolidated financial statements using the IFRS.

V Risk management

As a globally operating group, RHI is exposed to a variety of risks and has had a structured risk management system in place for corporate management control for several years. The systematic and decentralized collection, assessment and control of risks lead to awareness of and transparent dealing with risks throughout the group. The regular evaluation of the risk situation and the corresponding information to the Management Board or the respective responsible managers allow taking controlled risk and using the closely related opportunities. Internalized risk management thus represents an essential element in competition.

Risk owners in the operating units and the central group functions identify, assess and control risks where they occur. Risk coordinators ensure that identified risks and defined measures are dealt with in an interdisciplinary manner and across departments. Central risk management is part of the finance department and is responsible for the risk management process and its development. It provides standardized methods and tools for the identification and assessment of risks throughout the group.

The identification of risks is supported by defined risk areas and categories of risks. Risks are then measured according to the probability of their occurrence and possible impact on the EBIT of the unit concerned, taking into account the effect of control measures that have already been taken. In the case of significant risks, the possible effect on cash is also considered. Central risk management summarizes the risk situation for the respective area of responsibility for the stakeholders of the risk management process and provides the information in risk reports on a quarterly basis. This process is supported by a professional integrated risk management software. Risk policy and risk management processes are set out in a risk manual and are accessible to all employees 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 and development, employees, finance, IT, compliance and legal matters as well as natural disasters were defined. The risk analysis identified the following key risks, which are most likely to influence the asset and financial position of the group:

Steel production: The development in steel production in the markets relevant to RHI has great influence on the revenues of the Steel Division, the division with the highest revenues. The clear strategic focus of the RHI Group to expand its market share in the BRIC countries enables the group to put its revenues and earnings on a more diversified base and reduce dependence on the individual regions.

Political and legal environment: The RHI Group continues to pursue an expansion strategy into the emerging markets and is therefore confronted with higher risks than in its traditional core markets and locations. These risks are controlled through spreading, monitoring and the development of local know-how. These measures allow the RHI Group to use opportunities in the growth regions.

Company structure and organization: The growth strategy of the RHI Group naturally poses new challenges for the company structure. This risk is accounted for by ongoing reviews and optimization of internal structures.

Development of raw material, energy and transport prices: Being a globally operating producing company, RHI is subject to the development in the global procurement markets. In particular, price fluctuations in the commodity markets represent a significant risk factor for the group. This risk should have been reduced significantly by the end of 2012 as a result of the clear strategy to increase the self-sufficiency with raw materials by expanding the group’s own production and acquiring new sites.

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

The credit risk in the RHI Group is primarily related to operating 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 financing 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 euro area.

W US Chapter 11 proceedings
The Chapter 11 proceedings of the US companies North American Refractories Co., Harbison-Walker Refractories Co., AP Green Industries Inc. und Global Industrial Technologies Inc. (together with their subsidiaries the "ANH companies"), which were deconsolidated as of December 31, 2001, were completed positively at first instance in September and December 2007 with an approval of the reorganization plan and a confirmation of this plan. These companies are no longer considered to be subsidiaries of RHI AG because the Chapter 11 proceedings initiated by the companies in early 2002 do not permit RHI AG to exercise control.

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

These agreements regulate the waiver by RHI to receivables due from the US companies before the Chapter 11 proceedings as well as the waiver by RHI to all shares in the US companies in conjunction with the termination of the Chapter 11 proceedings. As RHI wrote down all accounts receivable and carrying values of related investments in the financial statements 2001, these agreements will not adversely affect RHI's results; there is upside potential. A condition to the coming into effect of the settlement agreement is a USD 40 million payment by Honeywell to RHI Refractories Holding under a prior contract related to the Chapter 11 proceedings of North American Refractories Co., as soon as the decision has become final and has been implemented. Based on this contract, USD 60 million has already been paid.

In January 2005, RHI AG and its affiliates became beneficiaries with legal security of the channeling injunctions of the DII reorganization 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 fulfilled its contractual obligations towards RHI on January 24, 2005 with a payment of USD 10.0 million.

On December 18, 2007 the approval of the reorganization plan was confirmed, and the insurance companies lodged an appeal in due time. Due to an agreement with the plaintiffs, the NARCO appeal proceedings were stopped in the year 2010. In the GIT appeals proceedings the court ruled on May 4, 2011 to refer the case back to the first instance for the purpose of ascertaining further facts. In view of this decision, the ANH companies and part of the insurance companies successful in the appeals proceedings agreed on a settlement, while talks are still ongoing with the other part. Regardless of this, the first-instance proceedings are continued. Beyond that, no further developments of material importance took place in the year 2011.

If the court gives its final approval to all reorganization plans, RHI AG and its affiliates will receive full legal security with respect to all remaining damages claims against the US companies operating under Chapter 11. Moreover, RHI AG and its affiliates will then become beneficiaries of the court orders based on the reorganization plans. All existing and future asbestos-related claims against the deconsolidated US companies would then be completed with full legal security.

X 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 realized 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.

Impairment of goodwill

The effect of an adverse change by plus 10% in the interest rate or minus 10% in the contribution margin as estimated on December 31, 2011 would not result in an impairment charge to the recognized 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 the pension 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 (15).

If the interest rate differed by 10% from the estimates made by management, the present value of the pension obligations would be € 13.7 million higher or approx. € 12.5 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 recognized for deferred taxes would presumably increase by € 7.7 million or decrease by € 9.4 million.

Other items

With respect to other balance sheet items, RHI currently assumes that changes in the estimates and assumptions will not have a material impact on the Group's assets, liabilities, financial position and profit or loss for the following financial year.

Y Group of consolidated companies

In addition to RHI AG, the consolidated financial statements include 74 subsidiaries, in which RHI AG directly or indirectly exercises management control.

Two 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
12/31/2010	**72**	**3**
Additions	3	0
Disposals	0	(1)
12/31/2011	**75**	**2**

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

	Full consolidation	Equity method
12/31/2009	**73**	**3**
Additions	1	0
Disposals	(2)	0
12/31/2010	**72**	**3**

Fully consolidated subsidiaries

Additions 2011

Premier Periclase Ltd.

On September 30, 2011, RHI acquired 100% of the shares in the Irish raw material producer Premier Periclase Ltd. ("PPL") via its subsidiary Dutch US Holding B.V., Arnhem, Netherlands. The company, which is based in Drogheda, produces seawater-based sinter with 109 employees. As a result of the takeover of PPL, RHI expands the supply with its own raw materials further.

The calculation of the goodwill as of September 30, 2011 was preliminary on the basis of the net assets acquired, but before adaptation to fair value. The adaptation of fair value of the acquired net assets carried out in the fourth quarter is also preliminary and led to an increase in property, plant and equipment amounting to € 18.4 million and an increase in trade and other current receivables of € 1.2 million. On the liabilities side, deferred taxes amounting to € 2.2 million were recognized.

The purchase price allocation based on the preliminary fair values at the time of acquisition consisted of the following items on the balance sheet date:

in € million	09/30/2011
Property, plant and equipment	19.4
Inventories	6.0
Trade and other current receivables	7.3
Cash and cash equivalents	1.3
Deferred tax liabilities	(2.2)
Trade and other current payables	(5.5)
Income tax payables	(0.2)
Net assets acquired	**26.1**
Negative difference	(2.9)
Total purchase price	**23.2**

An adaptation of the amounts recognized on a preliminary basis due to new findings in the course of the business development 2012 is possible until September 30, 2012 in accordance with IFRS 3.

The total purchase price of € 23.2 million was paid in cash. The external acquisition-related costs and the costs of the M&A department amounting to approx. € 0.7 million are included in general and administration costs. The negative difference arising from capital consolidation due to an external expert opinion was recognized under other income and allocated to the Raw Materials Division.

The gross value of the receivables acquired corresponds to the fair value and amounts to € 7.3 million.

RHI Normag AS

As of September 30, 2011, Radex Vertriebsgesellschaft mbH, Leoben, Austria, acquired 100% of the shares in SMA Mineral Magnesia AS ("SMA"), Porsgrunn, Norway. The company, whose name was changed to RHI Normag AS on October 15, 2011, produces seawater-based magnesium hydroxide, which can be converted to fused magnesia. SMA employs 20 people. As a result of the acquisition and the planned investments in the year 2012, RHI will increase the level of self-sufficiency with magnesia raw materials.

The effective date for the initial consolidation is September 30, 2011. The goodwill at September 30, 2011 was determined on the basis of the preliminary fair value at the date of acquisition and was subsequently adapted and finalized in the fourth quarter. As a consequence, this led to an increase in trade and other current receivables amounting to € 1.8 million, an increase in deferred tax liabilities of € 0.5 million and an increase in trade and other current liabilities amounting to € 0.4 million. Furthermore, the final purchase price was reduced by € 0.5 million on the basis of the final opening balance sheet and hence amounts to € 13.1 million.

The purchase price allocation based on the final fair values is presented below:

in € million	09/30/2011
Property, plant and equipment	14.0
Intangible assets	0.1
Trade and other current receivables	2.2
Cash and cash equivalents	0.1
Deferred tax liabilities	(3.0)
Personnel provisions	(0.8)
Other non-current liabilities	(0.3)
Trade and other current payables	(1.5)
Net assets acquired	**10.8**
Goodwill	2.3
Total purchase price	**13.1**

In the year 2011, € 11.3 million of the total purchase price were paid in cash. The purchase consideration of approx. € 1.8 million, which was recognized as a liability, depends on the compliance with legal and contractual environmental requirements and becomes due in 2012. The expected payment of this component of the purchase price may range between € 0.0 million and € 1.8 million. The external acquisition-related costs and the costs of the M&A department total approx. € 0.2 million and are included in general and administration costs.

The goodwill of € 2.3 million arising from the acquisition largely reflects the expected strategic advantages for the group, which result from increasing the level of self-supply with raw materials. The goodwill shown is not deductible for income tax purposes.

The gross amount of the receivables acquired corresponds to the fair value and amounts to € 2.2 million.

CJSC "RHI Podolsk Refractories"

On June 16, 2011, Radex Vetriebsgesellschaft mbH, Leoben, Austria, acquired the remaining 76.5% in the Russian company CJSC Podolsk Refractories ("Podolsk") based in Moscow. The RHI Group now holds 100% of the shares and exercises control over this entity, which results in a change in accounting from the acquisition cost method to full consolidation. On September 7, 2011 a decision was adopted to change the company name to CJSC "RHI Podolsk Refractories". The primary business activity of the acquired company covers the manufacturing of refractory products which are used in the glass industry. Podolsk has 224 employees. Due to the acquisition and integration of Podolsk, RHI expects to be able to further expand its position in the Russian market.

For reasons of simplification, July 1, 2011 was selected as the date of the initial inclusion in the RHI consolidated range. The allocation of the purchase price based on the determined final fair values at the date of acquisition is shown below:

in € million	07/01/2011
Property, plant and equipment	5.6
Inventories	2.2
Trade and other current receivables	2.3
Cash and cash equivalents	0.5
Deferred tax liabilities	(0.6)
Current financial liabilities	(0.3)
Trade and other current payables	(4.0)
Net assets acquired	**5.7**
Goodwill	0.6
Total purchase price	**6.3**

The total purchase consideration of € 6.3 million comprises the acquisition costs of the previously held 23.5% share of € 1.4 million, a consideration in cash of € 3.4 million transferred in June 2011 and the contingent consideration of € 1.5 million. RHI expects to pay the maximum amount under the contingent consideration arrangement to the former owner. The payment will be due in 2013 and is primarily dependent on the local management remaining with the acquired company. Acquisition-related costs in the total amount of approx. € 0.6 million were recognized in the general and administration costs in the year 2011 and in the year 2010.

The goodwill of € 0.6 million arising from the acquisition consists largely of expected synergies regarding the sale of refractory products in the Russian market. The goodwill is not deductible for income tax purposes.

The result from the fair value adjustment of the previously held equity interests amounts to less than € 0.1 million and was not recognized due to immateriality.

The gross carrying amount of the receivables acquired is € 2.5 million at the acquisition date, and the net carrying amount is € 2.3 million (equivalent to the fair value).

Pro-forma disclosures
Since their initial consolidation, the companies acquired in the year 2011 contributed € 14.2 million to revenues and € (2.6) million to profit after income taxes. This information serves for comparison purposes only and does not relate to future results because the operating activity of the raw material plants was influenced by investment projects that had been started.

In the period from January 1, 2011 until the inclusion in the RHI consolidated financial statements, the companies realized revenues of € 33.3 million and a profit after tax of € 1.6 million.

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

On August 17, 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 has since been 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 recognized directly in equity.

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

With effect from December 22, 2010, all shares (51%) held in Quintermina AG, Chur, Switzerland, were sold. For reasons of simplification, December 31, 2010 was chosen as the effective date of the deconsolidation. The proportional share of net assets disposed consisted of the following items at the time of deconsolidation:

in € million	12/31/2010
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.

Companies consolidated at equity
Dolomite di Montignoso S.p.A., Genoa, Italy, which had been consolidated at equity, was deconsolidated as of February 10, 2011 as a result of being sold. This sale had no material effect on the assets, liabilities, financial position and profit or loss of the RHI Group.

Subsidiaries not included in the consolidation
In the reporting period, two (12/31/2010: 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 December 31, 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 (45).

Notes on Individual Items of the Statement of Financial Position

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 2011:

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 12/31/2010	360.6	32.0	735.4	219.1	18.8	1,365.9
Currency translation	1.8	0.0	1.6	1.6	0.3	5.3
Change in consolidated companies	22.7	0.0	14.7	1.6	0.0	39.0
Additions	5.1	0.0	17.5	9.5	51.0	83.1
Retirements and disposals	(6.3)	0.0	(33.1)	(5.0)	0.0	(44.4)
Reclassifications	1.9	0.0	12.0	2.0	(16.3)	(0.4)
Cost at 12/31/2011	**385.8**	**32.0**	**748.1**	**228.8**	**53.8**	**1,448.5**
Accumulated depreciation at 12/31/2010	208.6	23.3	536.8	161.0	0.0	929.7
Currency translation	0.5	0.0	(1.5)	0.8	0.0	(0.2)
Depreciation charges	8.5	0.4	26.0	11.7	0.0	46.6
Reversal of impairment losses	(0.6)	0.0	(0.1)	0.0	0.0	(0.7)
Retirements and disposals	(5.7)	0.0	(28.6)	(4.7)	0.0	(39.0)
Accumulated depreciation at 12/31/2011	**211.3**	**23.7**	**532.6**	**168.8**	**0.0**	**936.4**
Carrying amounts at 12/31/2011	**174.5**	**8.3**	**215.5**	**60.0**	**53.8**	**512.1**

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 12/31/2009	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 12/31/2010	**360.6**	**32.0**	**735.4**	**219.1**	**18.8**	**1,365.9**
Accumulated depreciation at 12/31/2009	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 12/31/2010	**208.6**	**23.3**	**536.8**	**161.0**	**0.0**	**929.7**
Carrying amounts at 12/31/2010	**152.0**	**8.7**	**198.6**	**58.1**	**18.8**	**436.2**

Depreciation charges on property, plant and equipment are included in the income statement items cost of sales with € 43.6 million (2010: € 43.7 million), sales and marketing costs with € 1.4 million (2010: € 1.1 million) and general and administration costs with roughly € 1.6 million (2010: € 1.7 million). The reversals of impairment losses of € 0.7 million are shown in their entirety under restructuring costs. In the previous year, reversals of impairment losses of € 17.7 million were recognized in the item reversal of impairment losses in their entirety. Of the impairment charges of the previous year amounting to € 14.8 million, € 13.3 million were included in restructuring costs and € 1.5 million in the item reversal of impairment losses.

The income statement includes rental and lease payments for leased property, plant and equipment (operating leases) totaling € 22.5 million (2010: € 20.0 million).

Real estate, land and buildings of a carrying amount of € 5.8 million (12/31/2010: € 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 € 13.8 million (12/31/2010: € 15.7 million).

The marketability of real estate totaling € 20.2 million (12/31/2010: € 20.4 million) is limited by its commitment as collateral for credits.

(2) Goodwill
Goodwill developed as follows:

in € million	2011	2010
Goodwill at beginning of year	**14.4**	**14.7**
Currency translation	(0.1)	0.2
Change in consolidated companies	2.9	(0.5)
Goodwill at year-end	**17.2**	**14.4**

Goodwill reported as of December 31, 2011 consisted of the following items:

The acquisition of the raw material company RHI Normag AS accounts for € 2.4 million; € 0.5 million result from the takeover of CJSC "RHI Podolsk Refractories", € 0.4 million (12/31/2010: € 0.5 million) are related to RHI Clasil Limited, € 12.7 million are attributable without a change to the production facilities in Mexico and roughly € 1.2 million to the plants of the Didier-Werke AG Group (with the exception of Mexico).

(3) Other intangible assets
Other intangible assets changed as follows in the financial year 2011:

in € million	Internally generated intangible assets	Other intangible assets	Total
Cost at 12/31/2010	21.9	76.4	98.3
Currency translation	(0.1)	1.2	1.1
Change in consolidated companies	0.0	0.1	0.1
Additions	3.2	3.9	7.1
Retirements and disposals	(0.1)	(1.2)	(1.3)
Reclassifications	0.0	0.4	0.4
Cost at 12/31/2011	**24.9**	**80.8**	**105.7**
Accumulated amortization at 12/31/2010	11.5	42.1	53.6
Currency translation	(0.1)	0.3	0.2
Amortization charges	2.2	4.9	7.1
Impairment losses	0.2	0.0	0.2
Retirements and disposals	(0.1)	(1.2)	(1.3)
Accumulated amortization at 12/31/2011	**13.7**	**46.1**	**59.8**
Carrying amounts at 12/31/2011	**11.2**	**34.7**	**45.9**

Other intangible assets changed as follows in the previous year:

in € million	Internally generated intangible assets	Other intangible assets	Total
Cost at 12/31/2009	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 12/31/2010	**21.9**	**76.4**	**98.3**
Accumulated amortization at 12/31/2009	9.9	42.1	52.0
Currency translation	0.5	1.0	1.5
Amortization 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 amortization at 12/31/2010	**11.5**	**42.1**	**53.6**
Carrying amounts at 12/31/2010	**10.4**	**34.3**	**44.7**

Internally generated intangible assets comprise capitalized 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.

Amortization charges on intangible assets are included in the income statement items cost of sales with € 3.0 million (2010: € 3.3 million), sales and marketing costs with € 0.1 million (2010: € 0.1 million) and general and administration costs with € 4.0 million (2010: € 3.8 million). Impairment losses amounting to € 0.2 million are included in the item general and administration costs. In the previous year, gains for the reversal of impairment losses of € 4.8 million were recorded in the item reversal of impairment losses.

Expenses recognized for research and development in 2011 totaled € 19.2 million (2010: € 19.6 million).

(4) Shares in associates

The RHI Group holds shares in two (12/31/2010: 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	2011	2010
Carrying amount at beginning of year	**15.5**	**12.4**
Share in profit	5.5	6.6
Dividends	(6.6)	(3.4)
Other changes in value (after taxes)	0.1	(0.1)
Carrying amount at year-end	**14.5**	**15.5**

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

Summarized financial information (not adjusted to reflect the percentage of ownership of the RHI companies) is as follows: assets € 25.6 million (12/31/2010: € 29.6 million), liabilities € 6.4 million (12/31/2010: € 8.4 million), revenues € 29.5 million (2010: € 32.9 million) and profit € 11.0 million (2010: € 13.3 million).

(5) Other non-current financial assets

The other non-current financial assets shown on the balance sheet comprise the following:

in € million	12/31/2011	12/31/2010
Investments - available for sale	12.0	7.8
Securities - available for sale	29.7	29.4
Other non-current financial assets	**41.7**	**37.2**

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. The measurement as of December 31, 2011 is based on the purchase price of the remaining 50% share in the company, which was acquired on January 18, 2012.

The impairment losses recognized to financial assets available for sale amount to € 4.0 million at December 31, 2011 (12/31/2010: € 4.2 million).

(6) Other non-current assets

Other non-current assets include the following items:

in € million	12/31/2011	12/31/2010
Prepaid expenses for stripping costs	7.0	0.0
Net position plan assets from pension obligations	1.7	0.0
Other non-current receivables	2.3	0.3
Other non-current assets	**11.0**	**0.3**

Prepaid expenses for stripping costs arising from the development of a surface mine amounting to € 7.0 million (12/31/2010: € 6.6 million) are shown in non-current assets due to the planned use of the mine. In the previous year, this item was shown under current assets.

(7) Deferred taxes

Net deferred taxes on balance sheet items are as follows:

in € million	12/31/2011	12/31/2010
Deferred tax assets	105.7	98.8
Deferred tax liabilities	(10.9)	(3.6)
Net position	**94.8**	**95.2**

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

in € million	2011	2010
Net position at beginning of year	**95.2**	**64.4**
Currency translation	(1.0)	1.7
Change in consolidated companies	(5.8)	0.0
Change to income statement	10.5	22.4
Recording without recognition through profit or loss	(4.1)	7.0
Effect of tax rate changes	0.0	(0.3)
Net position at year-end	**94.8**	**95.2**

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
12/31/2010	**73.7**	**(30.8)**	**40.0**	**6.5**	**5.8**	**95.2**
Currency translation	(0.4)	0.3	(0.4)	0.0	(0.5)	(1.0)
Change in consolidated companies	0.7	(6.2)	0.2	0.0	(0.5)	(5.8)
Change to income statement	17.9	(2.1)	0.3	(0.3)	(5.3)	10.5
Recording without recognition through profit or loss	0.0	0.0	(4.1)	0.0	0.0	(4.1)
12/31/2011	**91.9**	**(38.8)**	**36.0**	**6.2**	**(0.5)**	**94.8**

in € million	Tax loss carryforwards	Non-current assets	Personnel provisions	Other provisions	Other	Total
12/31/2009	**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 tax rate changes	(0.1)	(0.2)	0.0	0.0	0.0	(0.3)
12/31/2010	**73.7**	**(30.8)**	**40.0**	**6.5**	**5.8**	**95.2**

As of December 31, 2011, subsidiaries that reported losses for the past year recognized net deferred tax assets totaling € 2.9 million (12/31/2010: € 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 totaled € 584.0 million as of December 31, 2011 (12/31/2010: € 626.3 million). Deferred taxes were not recorded on € 221.6 million of this amount (12/31/2010: € 334.8 million). The main portion of the unrecognized tax losses can be carried forward indefinitely. Approximately € 1.7 million can be used until the year 2014 and € 5.2 million until 2015. Approximately € 27.5 million will lapse at the earliest in the year 2020.

Deferred tax assets were not recognized on temporary differences of € 9.0 million (12/31/2010: € 4.1 million) as it is not sufficiently probable that they can be used.

Taxable temporary differences of € 14.0 million (12/31/2010: € 19.3 million) and deductible temporary differences of € 77.2 million (12/31/2010: € 59.7 million) were not recognized 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

(8) Inventories

Inventories as presented on the balance sheet comprise the following:

in € million	12/31/2011	12/31/2010
Raw materials and supplies	120.3	131.9
Unfinished products	95.5	93.2
Finished products and goods	201.3	201.6
Prepayments made	9.4	5.9
Inventories	**426.5**	**432.6**

Inventories recognized by the RHI Group amounted to € 426.5 million as of December 31, 2011 (12/31/2010: € 432.6 million). Of this total, roughly € 4.5 million (12/31/2010: € 4.0 million) were carried at net realizable value. Impairment losses recognized during the reporting year 2011, netted out against reversals of impairment losses, amount to approx. € 0.1 million (2010: € 9.9 million).

(9) Trade and other current receivables

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

in € million	12/31/2011	12/31/2010
Trade receivables	280.9	234.2
Receivables from long-term construction contracts	4.6	4.2
Receivables from associates	0.5	0.8
Other current receivables	75.0	64.3
Trade and other current receivables	**361.0**	**303.5**

Other current receivables comprise the following:

in € million	12/31/2011	12/31/2010
Taxes other than income taxes	54.0	38.9
Receivables employees	0.8	0.7
Prepaid expenses for stripping costs	0.0	6.6
Other prepaid expenses	1.5	1.7
Other	18.7	16.4
Other current receivables	**75.0**	**64.3**

Taxes other than income taxes include input tax credits and receivables from energy tax refunds, research, education and apprentice subsidies.

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 equaled € 68.9 million as of December 31, 2011 (12/31/2010: € 55.6 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 € 34.0 million were assigned for financial liabilities as of December 31, 2011 (12/31/2010: € 19.0 million).

For long-term construction contracts from current projects, cost incurred until December 31, 2011 amounting to € 10.1 million (12/31/2010: € 16.0 million) and contributions to earnings amounting to € 4.0 million (12/31/2010: € 3.5 million) were offset against prepayments received of € 9.5 million (12/31/2010: € 15.3 million), resulting in receivables from long-term construction contracts for projects not invoiced by the balance sheet date of € 4.6 million (12/31/2010: € 4.2 million).

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

in € million	2011	2010
Accumulated valuation adjustments at beginning of year	**11.7**	**12.0**
Currency translation	(0.1)	0.5
Change in consolidated companies	0.2	0.0
Addition	6.5	1.6
Use	(0.6)	(0.8)
Reversal	(2.0)	(1.6)
Accumulated valuation adjustments at year-end	**15.7**	**11.7**

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	12/31/2011	12/31/2010
Segment Steel	204.3	188.3
Segment Industrial	72.4	44.6
Segment Raw Materials	8.8	5.5
Trade receivables and receivables from construction contracts	285.5	238.4
Credit insurance and bank guarantees	(199.9)	(164.7)
Net credit exposure	**85.6**	**73.7**

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	12/31/2011	12/31/2010
US dollar	66.3	59.9
Pound sterling	2.6	2.5
Other currencies	2.7	0.3
Other functional currencies	213.9	175.7
Trade receivables and receivables from construction contracts	**285.5**	**238.4**

The classification of receivables by days outstanding is as follows:

in € million	12/31/2011	12/31/2010
Neither impaired nor past due at balance sheet date	239.8	195.1
Not impaired at balance sheet date and past due in the following time frames		
Less than 30 days	29.4	28.7
Between 30 and 59 days	8.7	6.3
Between 60 and 89 days	4.1	5.4
More than 90 days	3.5	2.9
Trade receivables and receivables from construction contracts	**285.5**	**238.4**

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 recognized for receivables of € 45.7 million that were overdue as of the balance sheet date (12/31/2010: € 43.3 million) because the risk of default was mainly covered by credit insurance as well as bank guarantees and letters of credit.

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

in € million	12/31/2011	12/31/2010
Shares - available for sale	1.6	1.6
Financial assets - held for trading	1.2	0.4
Other financial assets	**2.8**	**2.0**

Other financial liabilities are classified as "held for trading" and amount to € 0.3 million (12/31/2010: € 1.8 million). In the previous year, this item essentially showed the fair value of the following forward exchange contracts:

	Nominal value in million	Market value in € million
EUR purchase / CNY sale	EUR 5.0	(0.2)
USD purchase / CNY sale	USD 15.0	(0.4)
EUR purchase / INR sale	EUR 4.0	(0.5)
Forward exchange contracts		**(1.1)**

At December 31, 2011 no forward exchange contracts had been concluded.

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

in € million	12/31/2011	12/31/2010
Cash on hand	0.1	0.1
Cheques	1.2	0.5
Cash at banks	143.2	58.2
Cash and cash equivalents	**144.5**	**58.8**

Foreign exchange regulations in various countries restrict the use of cash and cash equivalents totaling € 2.8 million (12/31/2010: € 4.2 million).

Equity and Liabilities

(12) Equity
Share capital
The share capital of RHI AG totaled € 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.

Authorized capital 2010
The Management Board was authorized by resolution of the Annual General Meeting of RHI AG on April 30, 2010, in accordance with § 169 of the Stock Corporation Act, to increase share capital, without any further consent by the Annual General Meeting until April 30, 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.

Authorized capital 2008
The Annual General Meeting of May 29, 2008 authorized 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 May 29, 2013 for a cash contribution or contribution in kind.

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 currently prohibited by law. The reserve for the convertible bonds totaled € 11.3 million, 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 unrealized currency translation differences resulting from non-current shareholder loans.

Accumulated results
The item accumulated results includes results that were earned 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 January 1, 2002 and was recognized 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 determined in accordance with Austrian commercial law.

In the financial year 2011, dividends for the year 2010 totaling € 19.9 million were paid on the basis of a resolution by the Annual General Meeting on May 6, 2011. This corresponded to a dividend of € 0.50 per share.

Non-controlling interests
The item non-controlling interests essentially comprises the minority interest in the net assets of FC Technik AG, Winterthur, Switzerland.

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

Equity amounted to € 438.9 million and increased by € 118.0 million in comparison with the previous year. This change is essentially attributable to the positive result of 2011 and the recognition of actuarial gains (after deduction of deferred taxes) arising from defined benefit pension plans and termination benefits in equity. With a balance sheet total of € 1,689.9 million (12/31/2010: € 1,448.7 million), the equity ratio amounted to 26.0% at December 31, 2011 (12/31/2010: 22.2%).

Capital management is controlled by net gearing, which is defined as net debt divided by equity. Interest-bearing net debt represents interest-bearing liabilities (including obligations for pensions, termination payments and anniversary bonuses) minus interest-bearing assets. Net gearing based on equity fell from 200.6% to 147.3% in 2011. Not taking into account non-current personnel provisions, net gearing improved from 106.3% to 82.4%.

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

(14) Financial liabilities
Financial liabilities include all interest-bearing liabilities of the RHI Group vis-à-vis financial institutions, non-controlling interests and other lenders at the balance sheet date.

The financial liabilities have the following remaining terms:

	Total		Remaining term	
in € million	12/31/2011	up to 1 year	2 to 5 years	over 5 years
Liabilities to financial institutions	471.1	212.4	196.5	62.2
Other loans	34.9	7.9	11.9	15.1
Financial liabilities	**506.0**	**220.3**	**208.4**	**77.3**

	Total		Remaining term	
in € million	12/31/2010	up to 1 year	2 to 5 years	over 5 years
Liabilities to financial institutions	367.1	159.1	208.0	0.0
Other loans	32.7	4.4	14.4	13.9
Financial liabilities	**399.8**	**163.5**	**222.4**	**13.9**

Liabilities to financial institutions include export financing (including financing of the acquisition of companies) amounting to € 328.4 million (12/31/2010: € 241.5 million).

At December 31, 2011, the RHI Group had € 176.6 million of unused, immediately available credit facilities as well as a line of credit from the sale of receivables of € 85.0 million, of which 93.1% was used.

Approx. 47% of the liabilities to financial institutions carry fixed interest and 53% carry variable interest.

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

Interest terms fixed until	Effective annual interest rate	Currency	12/31/2011 Carrying amount in € million	Interest terms fixed until	Effective annual interest rate	Currency	12/31/2010 Carrying amount in € million
2012	EURIBOR + margin	EUR	142.7	2011	EURIBOR + margin	EUR	50.1
	LIBOR + margin	CAD	45.4		LIBOR + margin	CAD	45.6
	Variable interest rate + margin	EUR	34.0		Variable interest rate + margin	EUR	19.0
	LIBOR + margin	USD	10.0		LIBOR + margin	USD	8.4
	Interbank rate + margin	BRL	5.5		Interbank rate + margin	BRL	4.3
	6.36%	CLP	1.8		6.36%	CLP	3.0
	2.18% + margin	EUR	10.0		1.50% + margin	EUR	1.0
	ECB interest rate + margin	EUR	10.0		Interbank rate + margin	Various	1.8
	Interbank rate + margin	Various	1.9				
2013	2.54% + margin	EUR	93.1	2012	2.50% + margin	EUR	25.1
	1.50%	EUR	0.9		2.18% + margin	EUR	10.0
2015	3.45%	EUR	12.0	2013	2.54% + margin	EUR	139.6
					1.52% + margin	EUR	1.4
2019	2.50% + margin	EUR	25.0	2015	2.40% + margin	EUR	33.8
	3.25% + margin	EUR	24.0		1.147% + margin	EUR	24.0
	3.15%	EUR	16.0				
2020	3.15% + margin	EUR	38.8				
			471.1				**367.1**

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, € 148.3 million (12/31/2010: € 190.4 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 Refractories 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 € 34.0 million (12/31/2010: € 19.0 million).

(15) Personnel provisions

Personnel provisions include the following provisions:

in € million	12/31/2011	12/31/2010
Pensions	220.0	237.4
Termination benefits	51.4	51.9
Other personnel provisions	18.5	19.2
Personnel provisions	**289.9**	**308.5**

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:

	12/31/2011	12/31/2010
Interest rate	4.25% - 7.5%	4.5% - 7.75%
Expected yield on plan assets	3.0% - 7.5%	3.0% - 8.0%
Salary increase	3.0% - 4.75%	3.0% - 4.75%
Pension increase	2.0% - 4.25%	2.0% - 4.25%
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 following table shows the development of provisions for the financial year 2011 and the previous year:

in € million	2011	2010
Provisions for pensions at beginning of year	**237.4**	**222.8**
Currency translation	(0.7)	1.1
Change in consolidated companies	0.8	0.0
Pension cost	14.0	15.5
Actuarial (gains)/losses	(11.3)	19.9
Benefits paid	(18.1)	(18.5)
Contributions to external funds	(3.8)	(3.4)
Reclassifications	1.7	0.0
Provisions for pensions at year-end	**220.0**	**237.4**

The reclassifications of € 1.7 million in the year 2011 are related to the reclassification of pension assets created in a subsidiary at the balance sheet date (surplus of plan assets over the present value of pension obligations) to other non-current assets.

The pension obligations as a net position resulting from obligations and the fair value of plan assets are shown below:

in € million	12/31/2011	12/31/2010
Present value of unfunded pension obligations	201.0	217.5
Present value of wholly or partly funded pension obligations	88.5	86.5
Fair value of plan assets	(71.2)	(66.6)
Pension obligations	**218.3**	**237.4**

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

in € million	2011	2010
Present value of pension obligations at beginning of year	**304.0**	**286.2**
Currency translation	(0.5)	3.2
Change in consolidated companies	1.3	0.0
Current service cost	3.1	2.9
Interest cost	13.7	15.1
Actuarial (gains)/losses	(8.0)	20.5
Benefits paid	(24.1)	(23.9)
Present value of pension obligations at year-end	**289.5**	**304.0**

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

in € million	2011	2010
Fair value of plan assets at beginning of year	**66.6**	**63.4**
Currency translation	0.2	2.1
Change in consolidated companies	0.5	0.0
Expected return on plan assets	2.8	2.5
Actuarial gains	3.3	0.6
Benefits paid	(6.0)	(5.4)
Contributions to external funds	3.8	3.4
Fair value of plan assets at year-end	**71.2**	**66.6**

As of the balance sheet date, the fund assets were comprised as follows: 48% insurance (12/31/2010: 51%), 6% shares (12/31/2010: 7%), 45% fixed-interest securities (12/31/2010: 42%), 1% other assets (12/31/2010: 0%).

The actual income from the external fund assets equals € 6.1 million (2010: € 3.1 million).

The expected payments for 2012 amounting to € 21.9 million include the planned funding of plan assets as well as the payment of benefits not covered by the corresponding reimbursements from plan assets.

The following amounts were recognized in the income statement:

in € million	2011	2010
Current service cost	3.1	2.9
Interest cost	13.7	15.1
Expected return on plan assets	(2.8)	(2.5)
Pension cost	**14.0**	**15.5**

The current service cost is recognized 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	12/31/2011	12/31/2010	12/31/2009	12/31/2008	12/31/2007
Present value of pension obligations	289.5	304.0	286.2	285.9	309.0
Fair value of plan assets	(71.2)	(66.6)	(63.4)	(61.3)	(67.3)
Deficit	**218.3**	**237.4**	**222.8**	**224.6**	**241.7**

The actuarial losses recognized directly in equity are shown below:

in € million	2011	2010
Actuarial losses at beginning of year	**50.1**	**30.1**
(Gains)/losses of the year		
RHI AG and subsidiaries	(11.3)	19.9
Associates	0.0	0.1
Actuarial losses at year-end	**38.8**	**50.1**

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

in %	12/31/2011	12/31/2010	12/31/2009	12/31/2008	12/31/2007
Gains/(losses) in % of the present value of the obligation	0.6	0.2	(0.4)	0.8	(2.9)
Gains/(losses) in % of plan assets	4.6	0.9	2.1	(5.2)	(0.1)

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:

	12/31/2011	12/31/2010
Interest rate	5.0% - 8.25%	4.5% - 8.75%
Salary increase	3.0% - 6.25%	3.0% - 6.5%
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 recognized liability during the reporting year and prior year is shown below:

in € million	2011	2010
Present value of termination benefit obligations at beginning of year	**51.9**	**46.5**
Currency translation	(0.3)	0.3
Current service cost	1.9	1.8
Interest cost	2.4	2.6
Actuarial (gains)/losses	(3.3)	5.2
Benefits paid	(1.2)	(4.5)
Present value of termination benefit obligations at year-end	**51.4**	**51.9**

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

Payments for termination benefits are expected to total € 1.4 million in the year 2012.

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

in € million	12/31/2011	12/31/2010	12/31/2009	12/31/2008	12/31/2007
Present value of termination benefit obligations	51.4	51.9	46.5	49.9	52.8

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

in € million	2011	2010
Actuarial losses at beginning of year	**17.0**	**11.8**
(Gains)/losses of the year		
RHI AG and subsidiaries	(3.3)	5.1
Associates	(0.1)	0.1
Actuarial losses at year-end	**13.6**	**17.0**

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

in %	12/31/2011	12/31/2010	12/31/2009	12/31/2008	12/31/2007
Gains/(losses) in % of the present value of the obligation	0.8	(1.3)	0.2	(1.8)	(5.7)

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
12/31/2010	**13.3**	**1.5**	**4.4**	**19.2**
Use	(1.1)	(0.8)	(3.2)	(5.1)
Reversal	0.0	(0.1)	0.0	(0.1)
Addition	1.3	0.2	3.0	4.5
12/31/2011	**13.5**	**0.8**	**4.2**	**18.5**

(16) Other non-current provisions

The non-current provisions included on the balance sheet amounting to € 3.5 million (12/31/2010: € 3.3 million) are comprised primarily of provisions 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.

(17) Other non-current liabilities

Other non-current liabilities of € 7.5 million (12/31/2010: € 6.3 million) essentially include deferred income for subsidies received from third parties of € 4.5 million (12/31/2010: € 5.0 million). These subsidies are designed primarily to support capital expenditure. The current portion of recognized 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.

(18) Trade and other current payables

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

in € million	12/31/2011	12/31/2010
Trade payables	209.6	186.6
Prepayments received on orders	28.6	17.1
Accounts payable to associates	0.2	1.0
Other current payables	93.4	88.5
Trade and other current payables	**331.8**	**293.2**

Other current payables comprise the following items:

in € million	12/31/2011	12/31/2010
Taxes other than income taxes	14.6	11.5
Liabilities employees	47.3	48.3
Other	31.5	28.7
Other current payables	**93.4**	**88.5**

The item liabilities employees consists primarily of obligations for payroll taxes and employee-related duties, performance bonuses, unused vacation and flexitime credits.

(19) Current provisions

The following table shows the development of current provisions:

in € million	Demolition and disposal costs, environmental damages	Warranties	Guarantees provided	Claims for compen-sation	Restructuring costs, other	Total
12/31/2010	**6.0**	**18.1**	**20.2**	**21.3**	**11.2**	**76.8**
Currency translation	0.0	0.0	0.0	0.0	(0.9)	(0.9)
Use	(0.2)	(3.6)	0.0	0.0	(2.5)	(6.3)
Reversal	(1.1)	(0.9)	0.0	0.0	(1.8)	(3.8)
Addition	0.2	1.7	0.5	0.4	3.4	6.2
12/31/2011	**4.9**	**15.3**	**20.7**	**21.7**	**9.4**	**72.0**

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.

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

in € million	12/31/2011	12/31/2010
Liabilities from sureties	4.5	5.2
Liabilities from guarantees	25.3	22.0
Contingent liabilities	**29.8**	**27.2**

Contingent liabilities at December 31, 2011 contain contingent liabilities for discontinued operations amounting to € 1.4 million (12/31/2010: € 1.9 million).

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

	Total	Remaining term		
in € million	12/31/2011	up to 1 year	2 to 5 years	over 5 years
Obligations from rental and leasing contracts	58.4	11.3	31.8	15.3
Capital commitments	8.2	8.2	0.0	0.0
Miscellaneous financial obligations	12.4	2.6	9.8	0.0
Other financial obligations	**79.0**	**22.1**	**41.6**	**15.3**

	Total	Remaining term		
in € million	12/31/2010	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**

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. In the previous year, this item also contained the obligation to acquire 76.5% of the Russian company CJSC "RHI Podolsk Refractories", Moscow.

Notes on Individual Items of the Income Statement

(22) Revenues
Revenues are classified as follows:

in € million	2011	2010
Revenues from the sale of goods and the rendering of services	1,701.0	1,473.6
Revenues from long-term construction contracts	57.6	49.3
Revenues	**1,758.6**	**1,522.9**

(23) 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 amortization of intangible assets and impairment charges to inventories. Moreover, cost of sales also includes the costs of services received or provided by the Group.

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

(25) 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-capitalizable development costs as well as legal and consulting costs.

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

in € million	2011	2010
Gains from the disposal of property, plant and equipment and intangible assets	3.8	1.9
Negative difference Premier Periclase Ltd.	2.9	0.0
Insurance compensation	0.0	9.9
Miscellaneous	3.7	4.6
Other income	**10.4**	**16.4**

Gains from the disposal of property, plant and equipment include the sale of a property of the Raw Materials Division amounting to € 3.0 million.

Other income of the previous year includes a one-off effect amounting to € 9.9 million, which comprises the proceeds from insurance recovery for the plant and equipment of the RHI plant in Santiago de Chile destroyed by an earthquake, netted against the expenses related to the derecognition of property, plant and equipment, and compensation for operational interruption and other damage. Further expenses are included in the individual items of the consolidated income statement.

(27) Other expenses

Other expenses include:

in € million	2011	2010
Losses from the disposal of property, plant and equipment and intangible assets	(0.4)	(0.9)
Foreign exchange result	(5.3)	1.1
Result from derivative financial instruments	1.2	(5.6)
Miscellaneous expenses	(1.0)	(2.4)
Other expenses	**(5.5)**	**(7.8)**

The foreign exchange result includes the net amount of gains and losses 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 balance sheet date. The foreign exchange result is offset by a contrary result in the amount of the foreign exchange risk secured by forward exchange contracts.

Starting in the financial year 2011, RHI shows a positive balance of the foreign exchange result and the result from derivative financial instruments under other income. If the balance is negative, both items are shown under other expenses. Previously, the gross figures were given. The comparative figures for 2010 were reclassified accordingly.

(28) Reversal of impairment losses

For reasons of 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. In the reporting year 2011, there were no impairment losses (2010: € (1.5) million) and reversals of impairment losses (2010: € 22.5 million) to be shown separately.

In the year 2010, a reversal of impairment losses of € 5.4 million was recognized in the income statement 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 logistics strategy for such products. Other reversals of impairment losses of € 17.1 million recognized through 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 resulted from the write-down of real estate to fair value.

(29) Restructuring expenses

The item restructuring expenses for the year 2011 includes expenses for a raw material plant amounting to € (2.6) million and income totaling € 4.9 million. This income includes the proceeds from the sale of the Canadian plant Bécancour, which was realized in November 2011, as well as income from the reversal of provisions for the closure of the plant in Soufflenheim, France. The closure of the French plant was largely completed at the balance sheet date.

Of the restructuring expenses of € (33.8) million recognized in the previous year, which were incurred as a result of the group-wide adjustment of production capacities and the reorganization of sales and administration, € (13.3) million were attributable to impairment losses on property, plant and equipment, € (4.3) million to the write-down of inventories and € (16.2) million to other cash restructuring costs, especially social plans and other personnel costs as well as leasing and consulting expenses.

€ (1.2) million (2010: € (21.9) million) of the restructuring costs are accounted for by the EMEA region (Europe, Middle East, Africa) and € 3.5 million (2010: € (10.3) million) by North America.

(30) Interest income

Interest income includes income from securities and non-current receivables amounting to € 0.3 million (2010: € 0.4 million) as well as interest on cash at banks and similar income amounting to € 1.2 million (2010: € 2.5 million).

(31) Other financial results

The other financial results are classified as follows:

in € million	2011	2010
Income from investments	0.8	0.7
Reversal of impairment losses of financial assets	0.2	1.1
Expected return on plan assets	2.8	2.5
Interest expense for personnel provisions	(16.7)	(18.2)
Other financial results	**(12.9)**	**(13.9)**

(32) Income taxes

Income taxes in the Group consist of the following items:

in € million	2011	2010
Current tax expense	15.2	22.1
Deferred tax (income)/expense relating to		
temporary differences	7.4	6.8
tax loss carryforwards	(17.9)	(28.9)
	(10.5)	(22.1)
Income taxes	**4.7**	**0.0**

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 € 31.4 million. The reasons for the difference between the arithmetic income tax and the income tax reported are shown below:

in € million	2011	2010
Profit before income taxes	**125.5**	**104.6**
Arithmetic tax expense	**31.4**	**26.1**
Different foreign tax rates	(0.3)	(2.2)
Expenses not deductible for tax purposes,		
non-creditable withholding taxes	4.9	11.0
Income not subject to tax	(4.5)	(3.8)
Non-capitalized tax losses and temporary differences of the financial year	5.4	4.3
Utilization of previously unrecognized loss carryforwards		
and temporary differences	(11.2)	(12.2)
Capitalization of previously unrecognized loss carryforwards		
and temporary differences	(17.7)	(28.6)
Deferred tax expense due to tax rate changes	0.0	0.3
Deferred income tax relating to prior periods	(0.4)	(0.4)
Current income tax relating to prior periods	(4.7)	2.3
Other	1.8	3.2
Recognized tax expense	**4.7**	**0.0**

As the estimate of future taxable profits within the planning period defined for the accounting and measurement of deferred taxes has changed, an additional capitalization of deferred taxes for tax loss carryforwards amounting to € 17.5 million (2010: € 27.8 million) was made by RHI AG.

(33) Profit from discontinued operations

Profit from discontinued operations before income taxes amounting to € 0.7 million (2010: € 1.1 million) corresponds to profit after income taxes and is attributable to the equity holders of RHI AG in its entirety.

(34) Expense categories

Expenses are classified by category as follows:

in € million	2011	2010
Cost of material and other production services	957.8	874.8
Personnel costs	350.4	345.1
Depreciation and amortization charges	53.7	53.7

(35) Personnel costs

The individual components of personnel costs are listed below:

in € million	2011	2010
Wages and salaries	268.3	259.5
Pensions		
Defined benefit plans	3.1	2.9
Defined contribution plans	2.0	1.9
Termination benefits		
Defined benefit plans	1.9	1.8
Defined contribution plans	1.7	1.5
Other expenses	0.5	9.4
Fringe benefits	72.9	68.1
Personnel costs	**350.4**	**345.1**

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.

(36) 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 € 13.9 million (2010: € 15.7 million) is accounted for in the item other non-cash changes and included in changes in personnel provisions.

(37) 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.

Not all investments of the year 2011 were shown as cash-effective in the cash flow statement, as outflows for individual asset capitalizations will only occur in the following years.

Payments have not been received yet for the sale of non-current assets totaling € 1.8 million (2010: € 0.7 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.

(38) 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, with the exception of interest capitalized in accordance with IAS 23, which are shown under net cash flow from investing activities.

Other Disclosures

(39) Segment reporting
Segment reporting by operating company divisions
The following table shows the financial data for the operating segments for the year 2011:

in € million	Steel	Industrial	Raw Materials	Elimination/ Unallocated assets	Group
External revenues	1,106.8	613.9	37.9	0.0	1,758.6
Internal revenues	0.0	0.0	170.4	(170.4)	0.0
Segment revenues	**1,106.8**	**613.9**	**208.3**	**(170.4)**	**1,758.6**
Operating result	**70.1**	**68.3**	**10.2**	**0.0**	**148.6**
Restructuring costs	1.4	3.5	(2.6)	0.0	2.3
Operating results (EBIT)	**71.5**	**71.8**	**7.6**	**0.0**	**150.9**
Depreciation and amortization charges	(23.4)	(16.9)	(13.4)	0.0	(53.7)
Results from associates	0.0	0.0	5.5	0.0	5.5
Segment assets	588.4	317.6	381.2	388.2	1,675.4
Shares in associates	0.2	0.0	14.3	0.0	14.5
					1,689.9
Investments in property, plant and equipment and intangible assets	31.0	29.5	29.6	0.0	90.1

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	977.3	517.8	27.8	0.0	1,522.9
Internal 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	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 amortization 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

Revenues amounting to € 218.9 million (2010: € 195.9 million) mainly included in the Steel segment were realized with a customer in 2011.

The segment assets include the external receivables and inventories and 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 recognized under unallocated assets.

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

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

in € million	Steel	Industrial	Raw Materials	Group
Shaped products	702.7	480.0	0.0	1,182.7
Unshaped products	319.0	53.4	37.9	410.3
Other	85.1	80.5	0.0	165.6
Revenues	**1,106.8**	**613.9**	**37.9**	**1,758.6**

In 2010, revenues were 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**

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

in € million	2011	2010
Austria	39.7	33.2
Germany	162.9	152.6
USA	134.7	123.8
PR China	116.7	98.3
Mexico	112.8	104.5
Italy	105.3	106.8
India	83.0	75.4
Canada	81.8	64.5
Russia	67.3	51.5
Brazil	58.1	37.9
South Africa	54.0	34.3
France	47.8	43.6
Turkey	45.9	35.1
Spain	35.8	29.8
Other countries (each below € 35.0 million)	612.8	531.6
Revenues	**1,758.6**	**1,522.9**

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

in € million	12/31/2011	12/31/2010
Austria	165.6	155.9
PR China	149.4	142.6
Germany	86.9	81.2
Other countries	173.3	115.6
Property, plant and equipment and intangible assets	**575.2**	**495.3**

(40) Earnings per share

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.

	2011	2010
Profit attributable to equity holders of RHI AG (in € million)	121.5	105.9
Weighted average number of shares	39,819,039	39,819,039
Earnings per share (in €)	**3.05**	**2.66**
thereof continuing operations	3.03	2.63
thereof discontinued operations	0.02	0.03

There were no options for the issue of new shares or other circumstances that may lead to diluting effects. Therefore, the basic and diluted earnings per share correspond to one another.

(41) Additional disclosures on financial instruments

Financial assets and liabilities at (amortized) cost

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

	12/31/2011		12/31/2010	
in € million	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Other non-current assets	9.3	9.3	0.3	0.3
Trade and other current receivables	361.0	361.0	303.5	303.5
Cash and cash equivalents	144.5	144.5	58.8	58.8
Financial liabilities				
Non-current financial liabilities	263.2	273.1	213.9	215.4
Current financial liabilities	215.4	216.2	159.9	160.6
Trade and other current payables	331.8	331.8	293.2	293.2

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	12/31/2011	12/31/2010
Financial assets		
Securities - available for sale	29.7	29.4
Financial assets - held for trading	1.2	0.4
Investments - available for sale	12.0	7.8
Shares - available for sale	1.6	1.6
Financial liabilities		
Non-current financial liabilities	22.5	22.4
Current financial liabilities	4.9	3.6
Financial liabilities - held for trading	0.3	1.8

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 and liabilities held for trading mainly corresponds to the market value of the forward exchange contracts as well as the derivatives in orders 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 recognized during 2011 and 2010 is shown in the following table, classified according to the valuation categories defined in IAS 39:

in € million	2011	2010
Net gain on financial assets classified as available for sale	6.8	2.1
Net loss from loans and receivables as well as financial liabilities	(28.2)	(13.4)
Net gain/loss on financial assets and financial liabilities classified as held for trading	1.2	(5.6)

The net gain on financial assets classified as available for sale includes income from securities, dividend income, income from reversals of impairment losses, unrealized results recognized directly to equity as well as gains and losses from disposals. 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 result on financial assets held for trading and financial liabilities includes primarily changes in the market value of derivative financial instruments in the form of forward exchange contracts and embedded derivatives in open orders in a currency other than the functional currency of RHI as well as results from the realization of forward exchange contracts.

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 legal entity (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 recognized on the balance sheet. Equity instruments held are not monetary and are therefore not linked with any foreign exchange risk according to 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 recognized 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 December 31, 2011:

in € million	USD	EUR	NOK	Other	Total
Financial assets	335.5	30.3	2.2	34.2	402.2
Financial liabilities and provisions	(309.1)	(73.5)	(27.9)	(29.9)	(440.4)
Net foreign currency position	**26.4**	**(43.2)**	**(25.7)**	**4.3**	**(38.2)**

The foreign currency positions as of December 31 of the previous year are as follows:

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 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 December 31, 2011 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	(2.4)	(3.1)	2.9	3.8
Euro	3.9	3.9	(4.8)	(4.8)
Norwegian krone	2.3	2.3	(2.9)	(2.9)
Other currencies	(0.3)	(5.7)	0.5	7.1

The hypothetical effect on profit or loss as of December 31, 2010 can be summarized as follows:

	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

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 amortized 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 December 31, 2011 had been 100 basis points higher or lower, the interest results would have been € 1.1 million (12/31/2010: € 0.7 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 certificates in an investment fund amounting to € 28.7 million (12/31/2010: € 28.3 million), which were purchased above all as coverage for employee-related provisions. The market value of these certificates is influenced by fluctuations on the worldwide volatile international stock and bond markets.

(42) Expenses for the Group auditor
The expensed fee for the activity of the Group auditor Deloitte Audit Wirtschaftsprüfungs GmbH in accordance with § 266 para 11 UGB, amounted to € 0.5 million in the financial year 2011 (2010: € 0.8 million). The fee included € 0.3 million (2010: € 0.2 million) for the audit of the consolidated financial statements and € 0.2 million (2010: € 0.6 million) for other certification services. 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.

(43) 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 2011 and 2010.

In the financial year 2011, the Group provided services totaling € 2.7 million (2010: € 3.1 million) to this related company. The Group received services valued at € 2.4 million (2010: € 2.1 million) during the same period.

The receivables due from MAGNIFIN Magnesiaprodukte GmbH & Co KG totaled € 0.5 million and € 0.8 million as of December 31, 2011 and 2010, respectively. The liabilities due to this company amounted to € 0.2 million at December 31, 2011 (12/31/2010: € 1.0 million).

Related persons
The income statement for 2011 includes expenses for the Management Board of € 3.4 million (2010: € 3.6 million):

in €	Franz Struzl[1)]	Mark J. Eckhout[2)]	Giorgio Cappelli	Manfred Hödl	Henning E. Jensen[3)]
Fixed earnings	209,860	319,725	338,100	342,883	460,884
Variable earnings	204,795	206,577	244,800	244,800	499,607
Other	0	41,218	15,327	67,060	163,589
Total	**414,655**	**567,520**	**598,227**	**654,743**	**1,124,080**

1) Beginning of term of office from 09/08/2011
2) Beginning of term of office from 02/14/2011
3) Resigned prematurely from Management Board as of 09/07/2011

Variable earnings are performance-related and are 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 € 1.8 million were recognized for the Management Board (12/31/2010: € 2.2 million).

Salaries and other current benefits totaling € 3.2 million (2010: € 3.4 million) were paid to the members of the Management Board during the reporting year. Payments made to former members of the Management Board and their surviving dependents totaled € 0.8 million (2010: € 1.6 million). This item includes € 0.3 million (2010: € 1.1 million) of payments made in connection with the termination of employment.

The members of the Supervisory Board received remunerations of € 0.3 million in 2011 (2010: € 0.3 million). These remunerations were recognized as an expense for the reporting year.

As of the balance sheet date, there were no loans outstanding to members of the Management Board or Supervisory Board and no contingent liabilities on behalf of these persons. A secured loan amounting to € 2.1 million granted to a member of the Management Board of RHI AG in the year 2009 was fully repaid in the previous year.

The members of the Management Board and Supervisory Board are listed following the note (46).

Shareholders of RHI AG
Since April 20, 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.

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

	2011	2010
Salaried employees	3,211	3,043
Waged workers	4,672	4,217
Average number of employees	**7,883**	**7,260**

(45) RHI Group Companies as of December 31, 2011
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	6.	EUR	894,761	100.00
3.	CJSC "RHI Podolsk Refractories", Moscow, Russia (formerly CJSC Podolsk Refractories)	F	27.,67.	RUB	82,100,000	100.00
4.	Didier Belgium N.V., Evergem, Belgium	F	37.,64.	EUR	74,368	100.00
5.	Didier Vertriebsgesellschaft mbH, Wiesbaden, Germany	F	6.	EUR	178,952	100.00
6.	Didier-Werke AG, Wiesbaden, Germany	F	1.,27.	EUR	63,000,000	100.00
7.	Dolomite Franchi S.p.A., Brescia, Italy	F	27.	EUR	4,160,000	100.00
8.	D.S.I.P.C.-Didier Société Industrielle de Production et de Constructions, Breuillet, France	F	6.	EUR	1,735,990	99.88
9.	Dutch Brasil Holding B.V., Arnhem, Netherlands	F	67.	EUR	18,000	100.00
10.	Dutch MAS B.V., Arnhem, Netherlands	F	6.	EUR	30,000	100.00
11.	Dutch US Holding B.V., Arnhem, Netherlands	F	67.	EUR	18,000	100.00
12.	FC Technik AG, Winterthur, Switzerland	F	27.	CHF	100,000	51.00
13.	Full Line Supply Africa (Pty) Limited, Sandton, South Africa	F	27.	ZAR	100	100.00
14.	GIX International Limited, Wakefield, Great Britain	F	74.	GBP	1,004	100.00
15.	INDRESCO U.K. Ltd., Wakefield, Great Britain	F	14.	GBP	17,029,219	100.00
16.	Latino America Refractories ApS, Copenhagen, Denmark	F	74.	EUR	20,000	100.00
17.	Liaoning RHI Jinding Magnesia Co., Ltd., Dashiqiao City, PR China	F	27.	CNY	300,000,000	83.33
18.	LLC "RHI Wostok", Moscow, Russia	F	1.,27.	RUB	3,500,000	100.00
19.	LLC "RHI Wostok Service", Moscow, Russia	F	1.,27.	RUB	22,000,000	100.00
20.	Lokalbahn Mixnitz-St. Erhard AG, Vienna, Austria	F	57.	EUR	119,397	100.00
21.	Magnesit Anonim Sirketi, Eskisehir, Turkey	F	10.,20.,27., 67.,74.	TRY	16,750,000	100.00
22.	Magnesitwerk Aken Vertriebsgesellschaft mbH i.L., Aken, Germany	F	6.	EUR	130,000	100.00
23.	MARVO Feuerungs- und Industriebau GmbH, Kerpen, Germany	F	6.	EUR	513,450	100.00
24.	MARVO Feuerungs- und Industriebau GmbH, Gerbstedt, Germany	F	23.	EUR	25,565	100.00
25.	Premier Periclase Ltd., Drogheda, Ireland	F	11.	EUR	3,175,615	100.00
26.	Producción RHI México, S. de R.L. de C.V., Ramos Arizpe, Mexico	F	49.,74.	MXN	9,432,389	100.00
27.	Radex Vertriebsgesellschaft mbH, Leoben, Austria	F	71.	EUR	60,000,000	100.00
28.	REFEL S.p.A., San Vito al Tagliamento, Italy	F	6.	EUR	5,200,000	100.00
29.	Refractory Intellectual Property GmbH, Vienna, Austria	F	1.	EUR	17,500	100.00
30.	Refractory Intellectual Property GmbH & Co KG, Vienna, Austria	F	1.,29.	EUR	10,000	100.00
31.	RHI Argentina S.R.L., Buenos Aires, Argentina	F	16.,74.	ARS	10,000	100.00
32.	RHI Canada Inc., Burlington, Canada	F	74.	CAD	28,250,002	100.00
33.	RHI Chile S.A., Santiago, Chile	F	14.,74.	CLP	12,774,407,413	100.00
34.	RHI Clasil Limited, Hyderabad, India	F	74.	INR	184,000,000	53.72
35.	RHI Dinaris GmbH, Wiesbaden, Germany	F	64.	EUR	500,000	100.00
36.	RHI Finance A/S, Hellerup, Denmark	F	1.	EUR	70,000	100.00
37.	RHI GLAS GmbH, Wiesbaden, Germany	F	64.	EUR	500,000	100.00
38.	RHI India Private Limited, Navi Mumbai, India	F	74.	INR	835,000	60.00
39.	RHI Isithebe (Pty) Limited, Sandton, South Africa	F	27.	ZAR	1,500	100.00
40.	RHI Monofrax, LLC, Wilmington, USA (formerly RHI Monofrax, Ltd.)	F	65.	USD	3,558,751	100.00
41.	RHI Normag AS, Porsgrunn, Norway	F	27.	NOK	200,000,000	100.00
42.	RHI-Refmex, S.A. de C.V., Ramos Arizpe, Mexico	F	49.,74.	MXN	67,210,290	100.00

		Type of consolidation	Parent	Currency	Nominal capital in local currency	Share in %
43.	RHI Refractories Africa (Pty) Ltd., Sandton, South Africa	F	6.	ZAR	215,705	100.00
44.	RHI Refractories Andino C.A., Puerto Ordaz, Venezuela	F	74.	VEF	1,600,001	100.00
45.	RHI Refractories Asia Ltd., Hongkong, PR China	F	66.	HKD	1,000	100.00
46.	RHI Refractories Asia Pacific Pte. Ltd., Singapore	F	1.	SGD	300,000	100.00
47.	RHI Refratários Brasil Ltda., Sao Paulo, Brazil	F	9.,74.	BRL	55,266,501	100.00
48.	RHI Refractories (Dalian) Co., Ltd., Dalian, PR China	F	27.	CNY	367,101,582	100.00
49.	RHI Refractories España, S.L., Lugones, Spain	F	6.,10.	EUR	6,930,000	100.00
50.	RHI Refractories France S.A., Breuillet, France	F	66.	EUR	703,800	100.00
51.	RHI Refractories Holding Company, Dover, USA	F	74.	USD	1	100.00
52.	RHI Refractories Ibérica, S.L., Madrid, Spain	F	66.	EUR	30,050	100.00
53.	RHI Refractories Italiana s.r.l., Brescia, Italy	F	66.	EUR	110,000	100.00
54.	RHI Refractories Liaoning Co., Ltd., Bayuquan, PR China	F	27.	CNY	211,764,700	66.00
55.	RHI Refractories Mercosul Ltda, Sao Paulo, Brazil	F	67.,74.	BRL	49,250	100.00
56.	RHI Refractories Nord AB, Stockholm, Sweden	F	66.	SEK	1,000,000	100.00
57.	RHI Refractories Raw Material GmbH, Vienna, Austria	F	1.,27.	EUR	35,000	100.00
58.	RHI Refractories Site Services GmbH, Wiesbaden, Germany	F	6.	EUR	1,025,000	100.00
59.	RHI Refractories (Site Services) Ltd., Newark, Great Britain	F	62.	GBP	1,350,000	100.00
60.	RHI Refractories UK Limited, Clydebank, Great Britain	F	6.	GBP	8,875,000	100.00
61.	RHI Rückversicherungs AG, Vaduz, Liechtenstein	F	27.	EUR	1,210,000	100.00
62.	RHI Sales Europe West GmbH, Urmitz, Germany (formerly RHI Refractories Spaeter GmbH)	F	6.,66.	EUR	256,157	100.00
63.	RHI Trading (Dalian) Co., Ltd., Dalian, PR China	F	27.	CNY	39,865,230	100.00
64.	RHI Urmitz AG & Co KG, Mülheim-Kärlich, Germany	F	5.,6.	EUR	2,454,250	100.00
65.	RHI US Ltd., Wilmington, USA	F	11.	USD	1	100.00
66.	SAPREF AG für feuerfestes Material, Basel, Switzerland	F	74.	CHF	4,000,000	100.00
67.	Veitscher Vertriebsgesellschaft mbH, Vienna, Austria	F	1.	EUR	36,336	100.00
68.	Veitsch-Radex America Inc., Burlington, Canada	F	32.	CAD	1	100.00
69.	Veitsch-Radex America Inc., Mokena, USA	F	65.	USD	100	100.00
70.	Veitsch-Radex GmbH, Vienna, Austria	F	1.	EUR	35,000	100.00
71.	Veitsch-Radex GmbH & Co OG, Vienna, Austria	F	1.,70.	EUR	106,000,000	100.00
72.	Veitsch-Radex Vertriebsgesellschaft mbH, Vienna, Austria	F	1.	EUR	36,336	100.00
73.	VERA FE, Dnipropetrovsk, Ukraine	F	27.	UAH	192,600	100.00
74.	VRD Americas B.V., Arnhem, Netherlands	F	1.,27.	EUR	33,750,450	100.00
75.	Zimmermann & Jansen GmbH, Düren, Germany	F	6.	EUR	3,835,000	100.00
76.	Dr.-Ing. Petri & Co. Unterstützungs-Gesellschaft mbH, Duisburg, Germany	N	6.	DEM	50,000	100.00
77.	RHI Réfractaires Algérie E.U.R.L., Sidi Amar, Algeria	N	50.	DZD	100,000	100.00
78.	MAGNIFIN Magnesiaprodukte GmbH & Co KG, St. Jakob, Austria	E	67.,80.	EUR	9,447,468	50.00
79.	Società Dolomite Italiana SDI S.p.A., Gardone Val Trompia, Italy	E	7.	EUR	208,000	50.00
80.	MAGNIFIN Magnesiaprodukte GmbH, St. Jakob, Austria	I	67.	EUR	35,000	50.00
81.	LLC NSK Ogneupor Holding, Moscow, Russia	I	27.	RUB	10,000	49.00
82.	LLC NSK Ogneupor, Novokuznetsk, Russia	I	27.	RUB	10,000	49.00
83.	Stopinc AG, Hünenberg, Switzerland	I	6.	CHF	1,000,000	50.00
84.	Treuhandgesellschaft Feuerfest mbH i.L., Bonn, Germany	I	6.,58.,64.	DEM	50,000	38.00

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

(46) Material events after the balance sheet date

With a purchase contract dated January 18, 2012, Radex Vertriebsgesellschaft mbH, Leoben, acquired the remaining 50% share in Stopinc AG, Hünenberg, Switzerland, at a purchase price of € 17.4 million with retroactive effect from January 1, 2012. RHI now holds 100% of the shares and voting rights. Stopinc AG and its subsidiaries in the USA, China and Switzerland manufacture and sell special products used in the steel and nonferrous metals industries.

As the opening statements of financial position of these companies had not been prepared at the time of the release of the consolidated financial statements on February 17, 2012, no substantiated statements can be made on the effect on the consolidated statement of financial position.

Members of the Management Board

Franz Struzl, Vienna (since 09/08/2011)

Mark J. Eckhout, Vienna (since 02/14/2011)

Giorgio Cappelli, Vienna

Manfred Hödl, Vienna

Henning E. Jensen, Oslo, Norway (Chairman from 02/04/2011 to 09/07/2011, Spokesman of the Management Board from 08/21/2010 to 02/03/2011, member since 01/18/2010) was also a member of the Management Board.

Members of the Supervisory Board

Herbert Cordt, Vienna, Chairman

Michael Gröller, Vienna, Deputy Chairman

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

Employee representatives:

Martin Kowatsch, Radenthein

Leopold Miedl, Vienna

Roland Rabensteiner, Veitsch

Franz Reiter, St. Jakob in Haus

Vienna, 02/17/2012

Management Board

Franz Struzl
CEO

Mark J. Eckhout
CFO

Giorgio Cappelli
COO Steel Division

Manfred Hödl
COO Industrial Division
and Raw Materials Division

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 January 1, 2011 to December 31, 2011. These consolidated financial statements comprise the consolidated statement of financial position as of December 31, 2011, 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 December 31, 2011, 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 judgment, 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 December 31, 2011 and of its financial performance and its cash flows for the fiscal year from January 1, 2011 to December 31, 2011 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, 02/17/2012

Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Friedrich WIESMÜLLNER m.p.
Austrian Certified Public Accountant

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

Statement of the Management Board in accordance with § 82 (4) of the Austrian Stock Exchange Act

Statement of the Management Board in accordance with § 82 (4) of the Austrian Stock Exchange Act

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 December 31, 2011 do not necessarily permit conclusions on the future development of results.

Vienna, 02/17/2012

Management Board

Franz Struzl
CEO

Mark J. Eckhout
CFO

Giorgio Cappelli
COO Steel Division

Manfred Hödl
COO Industrial Division
and Raw Materials Division